

Three Take-Aways

1) Cautious sentiments ahead of US CPI today; Brent Crude's rally halted on cease-fire prospect between Hamas and Israel.

2) China's loan/aggregate financing surprise driven mainly by NBF and government belie weak credit demand from households and corporates.

3) Bank Indonesia hold yet again on IDR-stability concerns.

MACRO THEME: Waiting Game

- Even as producer price index unexpectedly cooled in December, markets struck a cautious tone ahead of US CPI release today as components that feed into the personal consumption expenditure (the Fed's preferred inflation gauge) printed mixed.

- Meanwhile, Brent Crude fell -1.4% to a touch below US\$80/bbl on news that Hamas and Israel tentatively agreed to a cease-fire cooling a rally fuelled by risks to Russian and Iranian supplies.

Yields (2Y: -1.3bp; 10Y: +1.3bp, 30Y: +1.3bp)

- UST yield curve steepened.

Equities (Nasdaq: -0.2%; S&P 500: +0.1%; Dow: +0.5%)

- US equities traded mixed.

FX (DXY: -0.6%)

- The USD started the Asia session on a softer foot following reports that Trump's tariffs may see a gradual month-by-month hike of 2%-5%. The USD was weaker against the G10 currencies, with the exception of JPY, which weakened against the greenback.

- USD/JPY moved to 158 levels, shrugging off BoJ Deputy Governor Himino's comments that an interest rate hike next week remains in discussion and was not ruled out.

- EUR led gains, rebounding above 1.03 levels amid mixed ECB speak. ECB Holzmann said it's unclear whether the Governing Council will lower interest rates again at its Jan 30 policy meeting, citing "hiccups" in EZ inflation, while ECB Rehn commented that he expected restrictive policy settings to be maintained until mid-2025, noting disinflation is well on track, wage pressures have somewhat receded while growth outlook has weakened.

- Down under, AUD tested 62 cents.

- In Asia, USD/SGD mostly traded below 1.37 handle. Elsewhere, RBI Governor Malhotra has also shown a willingness to allow the INR to move more freely in tandem with peers in the region, a departure from former Governor Das who kept a tight rein on the currency. The INR has slumped ~2.2% since Malhotra took over in December.

China: Credit Demand Outrun?

- December loan/aggregate financing increased more than the market had expected. However, the increase was mainly driven by lending to non-bank financial institutions and government financing, rather than by financing demand from households and corporates.

- Government bond financing increased by RMB1.76tn in December, marking the biggest one on record. In contrast, medium- and long-term corporate loans saw an increase of only RMB40m in December, marking the lowest level in over 8 years.

- On a positive note, fiscal spending started to gather pace in December, with fiscal deposits reporting the largest monthly decline ever, at RMB1.67tn. This record outflow is likely driven by rising government trade-in subsidies on domestic consumption, which bodes well for retail sales data expected this Friday. Additionally, the gap between M1 and M2 growth rates narrowed further, indicating less subdued business activity among corporates.

- In our view, the RRR cut expected at the end of last year is delayed rather than postponed. We anticipate further monetary easing for 2025, including interest rate cuts totalling 60bps, to revive domestic business sentiment and guide a moderate increase in prices, alongside increased fiscal spending.

Bank Indonesia: Hands Tied

- Bank Indonesia is expected to stand pat at the upcoming meeting (15 Jan) as its hands are tied on multiple fronts. Simply put, the room to ease that BI is looking for looks even more limited this meeting compared to the December meeting amid broad USD strength.

- Apart from broad USD strength in recent weeks, the watered down VAT implementation at the turn of the year have amplified concerns over Indonesia's fiscal health.

- Notably, the scope of a planned VAT increase from 11% to 12% was narrowed down to only luxury items, against expectations of a broader range of goods and services (with the exception of basic necessities like rice). The policy manoeuvre raises doubt on political will to contain its fiscal deficit, especially with President Prabowo's massive spending plans.

- The fiscal bugbear, coupled with broad USD strength, has seen IDR languishing above 16,100 and have prompted interventions from Bank Indonesia on the first trading day of the year, and yet again reiterated that it will guard the IDR on Monday this week.

- Meanwhile, cut-off yields at Bank Indonesia SRBI auctions have been edging higher since the last meeting, even as cut-off yields at BI's foreign currency auctions have edged down following the Fed's cuts. This could point to added pressure on Bank Indonesia to keep interest rates elevated to attract inflows.

- Macroeconomics have remained broadly stable and would support a hold. CPI remained stable and is expected to remain so. Given the watered down VAT implementation to only target luxury goods, the pass-through to CPI is expected to be marginal; whereas details of subsidy fuel/electricity rationalisation plans remain scant. Meanwhile, infrastructure push and government spending on initiative such as free lunch programs ought to support growth. However, even as overall domestic consumption should remain supported, more discretion on spending on recreation goods amid buoyant growth in necessities and food and fuel could pose downside risks in coming quarters.

- All in, Bank Indonesia is on course for another hold.

DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(IN) Wholesale Prices YoY (Dec)	2.4%	2.2%	1.9%
(JP) BoP Current Account Balance (Nov)	¥3352.5b	¥2652.5b	¥2456.9b
(JP) Eco Watchers Survey Current SA	49.9	49.5	49.4
(JP) Trade Balance BoP Basis (Nov)	¥97.9b	¥34.6b	¥155.7b
(US) PPI Final DD YoY (Dec)	3.3%	3.5%	3.0%
(TH) Consumer Confidence Economic(Dec)	51.4	--	50.40
(CH) New Yuan Loans CNY YTD (Dec)	18,090b	17,871b	17,092b
(CH) Agg Financing CNY YTD (Dec)	32,260b	31,560b	29,402b
Today	Actual	Exp.	Prior
Bank Indonesia Decision		6.00%	6.00%
(KR) Unemployment rate SA (Dec)	3.7%	2.8%	2.7%
(PH) Cash Remittances YoY (Nov)		3.0%	2.7%
(US) Empire Manufacturing (Jan)		-2.0	0.2
(US) CPI/Ex Food,Energy YoY (Dec)		2.9%/3.3%	2.7%/3.3%
(US) Real Avg Weekly Earnings YoY (Dec)		--	1.0%
(EZ) Industrial Production SA MoM (Nov)		--	0.0%
(JP) Machine Tool Orders YoY (Dec P)		--	3.0%

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	157.96	158.05	+0.30%	156.50 - 160.50
EURUSD	1.0308	1.0306	+0.61%	1.0190 - 1.0440
GBPUSD	1.2215	1.2210	+0.11%	1.2050 - 1.2380
AUDUSD	0.6195	0.6190	+0.29%	0.6120 - 0.6260
DXY	109.3	--	▼0.62%	108.6 - 110.0
USDCNY	7.3311	--	▼0.01%	7.3200 - 7.3500
USDCNH	7.3437	7.3457	▼0.04%	7.3300 - 7.3700
USDHKD	7.7868	7.7871	+0.01%	7.7750 - 7.8000
USDSGD	1.3666	1.3671	▼0.22%	1.3560 - 1.3780
USDKRW	1459	1460	+0.00%	1450 - 1470
USDTWD	32.99	--	▼0.43%	32.70 - 33.15
USDINR	86.65	--	+0.08%	86.20 - 87.00
USDIDR	16265	--	▼0.06%	16150 - 16350
USDMYR	4.508	4.503	▼0.06%	4.470 - 4.520
USDPHP	58.63	--	▼0.17%	58.20 - 58.90
USDTHB	34.76	34.69	▼0.08%	34.4 - 34.9
USDVND	25389	25389	▼0.03%	25320 - 25460

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.368	4.793	-1.3	1.3
JGB (JP)	0.679	1.240	3.6	4.6
Bunds (GE)	2.315	2.650	2.6	3.8
Gilts (UK)	4.597	4.888	0.7	0.5
AGB (AU)	4.007	4.614	-1.9	-2.0
SGS (SG)	2.964	3.080	3.6	-0.1
CGB (CN)	1.223	1.638	-1.6	-0.6
KGB (KR)	2.850	2.713	1.3	-1.3
SDL (IN)	6.822	6.743	0.1	3.6

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	162.83	162.88	+0.94%
GBP/JPY	192.953	192.965	+0.42%
JPY/SGD (100yen)	0.8651	0.865	▼0.53%
JPY/HKD (100yen)	4.9295	4.9271	▼0.29%
CNH/JPY	21.554	21.558	+0.35%
CNH/HKD	1.0622	1.0622	+0.02%
EUR/GBP	0.84385	0.8441	+0.52%
AUD/NZD	1.1052	1.105	▼0.10%
EUR/CNH	7.57	7.5705	+0.58%
GBP/CNH	8.9707	8.9687	+0.05%

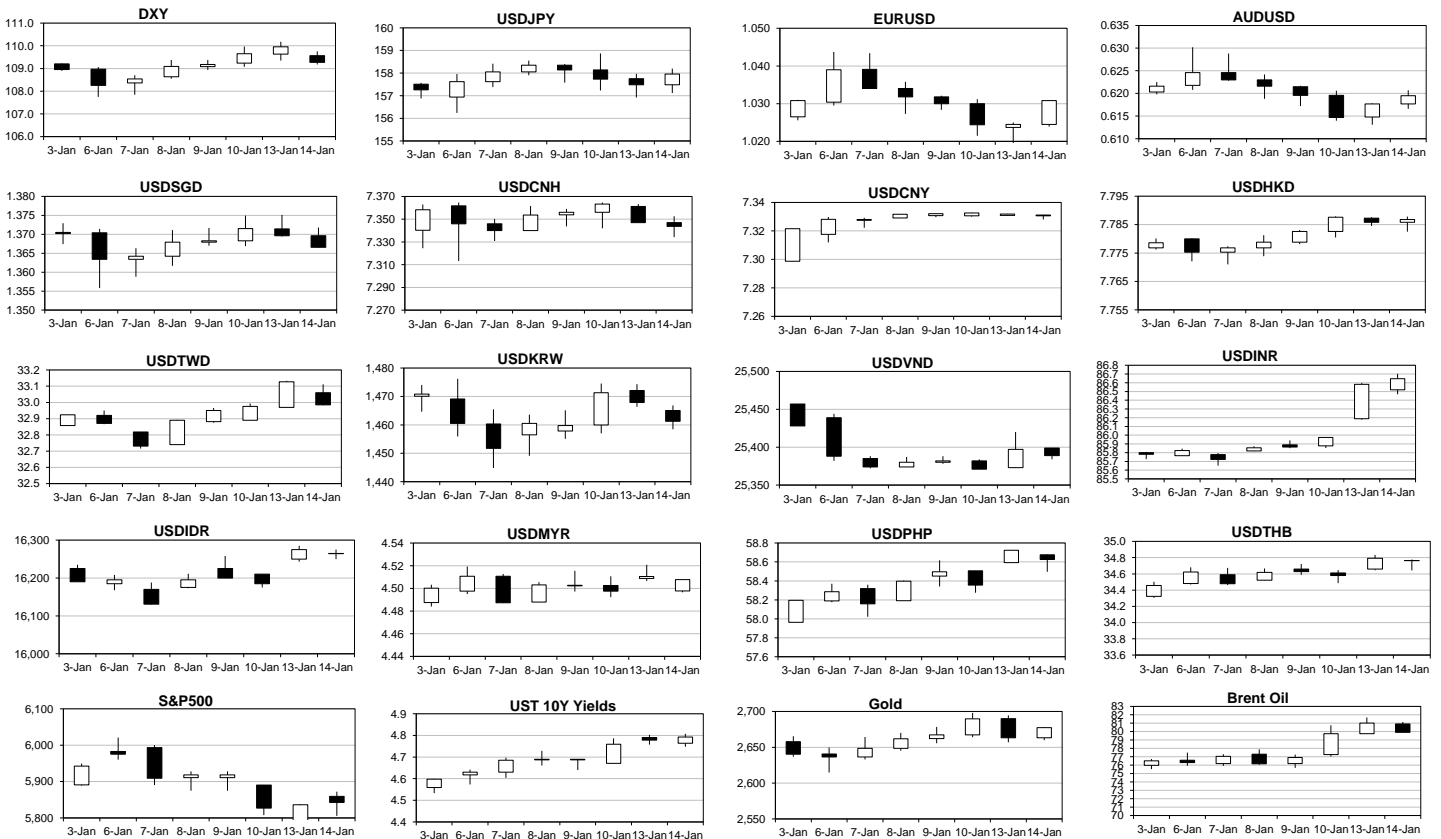
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5842.91	6.69	+0.11%
Nasdaq (US)	19044.39	-43.71	▼0.23%
DJIA (US)	42518.28	221.16	+0.52%
N225 (JP)	38474.3	-716.10	▼1.83%
STOXX50 (EU)	4980.47	26.26	+0.53%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4454.99	-9.15	▼0.20%
STI (SG)	3788.77	-2.93	▼0.08%
SHCOMP (CN)	3240.94	80.18	+2.54%
SZCOMP (CN)	1915.846	77.39	+4.21%
HSI (HK)	19219.78	345.64	+1.83%
SENSEX (IN)	76499.63	169.62	+0.22%
JSE (ID)	6956.665	-60.21	▼0.86%
KLSE (MY)	1576.46	-9.13	▼0.58%
PSE (PH)	6299.67	-43.43	▼0.68%
SET (TH)	1340.25	-14.09	▼1.04%
VNINDEX (VN)	1229.07	-0.01	▼0.53%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,033.70	54.86	+0.61%
IRON ORE (CN)	99.85	2.43	+0.94%
GOLD	2,677.46	14.30	+0.54%
SILVER	29.90	0.03	+0.86%
OIL (BRENT)	79.92	-1.09	▼1.35%
OIL (WTI)	77.50	-1.32	▼1.67%
NATURAL GAS	3.97	0.29	+0.98%

CHARTS



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