

Jan 16, 2025

Three Take-Aways

- 1) Softer-than-expected US core inflation sparks relief rallies from a soft base, but not redemption from hawkish Fed risks.
- 2) FX markets a tad more stoic as USD reclaims most of its post-CPI, knee-jerk dip.
- 3) Bank Indonesia's cut temporarily benefits from CPI relief. But the BoJ's pre-existing risks of being painted into a corner are put to bed.

MACRO THEME: Relief, Not Redemption

For all the headline exuberance of the market rallies that it prompted, **softer-than-expected US core CPI** was a source of **relief, not redemption**. Point being, closer examination reveals that **sentiments remain guarded, and rallies were in the context of the month's pre-CPI running losses**.

Equities: Point being, since peaking in early-December, equities have been wobbling at the prospects of hawkish Fed impulses. The resultant soft base (and trimmed positions) flatters gains. Accordingly, the **month-to-date gains in equities** for January (S&P500: 1.2% | Nasdaq: 1.0%) **lag the corresponding post-CPI rallies** (S&P500: 1.8% | Nasdaq: 2.5%).

Bonds: Similarly, the **outsized (~14bp) drop in 10Y UST yields** merely **temper, but don't overturn, the dominance of bond bears**. Fact is, at 4.65% the 10Y UST yield is almost 100bp higher than before the Fed started cutting rates in September (mid-Sep: 3.65%).

FX-USD: Arguably, **FX markets** – as surmised from broad USD (DXY) moves – **are most stoic** (least stoked), with the **USD reclaiming most of its post-CPI, knee-jerk dip**. Admittedly, **USD strength** may *partly* reflect *Trump 2.0 (tariff) fears*. But equally, it **squares with the narrative of relief, not redemption from underlying Fed risks**.

Underlying, Fed Risks: Specifically, that **relief from tempered inflation risks** does **not** translate into policy **redemption from the need for Fed restraint** (associated with a slower pace of conditional cuts from here).

This has been **expressed as a bull steepener in the UST curve** as more acute **inflation risks priced at the long-end are dialed back to a greater degree** than the front-end may accommodate emphatic policy shifts. Notably, **swap markets have only just nudged up the probability of the next Fed cut being in mid-2025** rather than in Q3 (as priced pre-CPI).

Whereas, the pricing for just 2 rate cuts through 2025-26 is significantly more hawkish than the December 'Dot Plot' median for 4 cuts.

While the broad USD was by and large steady, performance across the FX markets was highly differentiated, with JPY leading with 1.1% of gains.

Ironically, **JPY out-performance conceals the threat of BoJ under pressure to hike in January** (next week) or face a sell-off in the JPY. **US CPI bolstering relief for JPY** though **is no redemption for the BoJ** (dilemma) that **remains under pressures to deliver on tightening**.

Elsewhere, **Bank Indonesia's surprise cut** yesterday also **enjoys the US CPI windfall** that **alleviates rupiah pressures typically associated with rate cuts**. Relief from imminent rupiah pressures is welcome. *But durable redemption from macro/rupee stability risks is illusory*. The can on policy trade-off risks is merely kicked down the road.

Yields (2Y: -10.2bp; 10Y: -13.9bp, 30Y: -9.6bp)

The bull flattener resulted from overblown inflation fears at the long end being tamed, but the front-end dip a tad more limited by Fed restraint. 10-2Y spread was trimmed (by 3.6bp) to 38.8bp. A bumpy path to more steepening may remain intact though.

Equities (Nasdaq: +2.5%; S&P 500: +1.8%; Dow: +1.7%)

FX (DXY: -0.2%)

USD initially plunged more emphatically (by some 0.5%) to test mif-108, but subsequently reclaimed most of the losses. The broader narrative being consistent with more hawkish slant on Fed expectations not being materially watered down by US inflation shortfall.

JPY led gains, but this was dialed up by BoJ hike expectations. Durable long-JPY bets though may demur. Meanwhile a firm jobs read Down under, underpins AUD rallies above 0.62.

Why the BoJ is Still Painted into a Corner

To be clear, **more than half the JPY gains predated US CPI**, and was **owed to hawkish BoJ bets**.

Specifically, to **Governor Ueda remarks, which were perceived as sufficiently hawkish-leaning to price in a BoJ hike next week**.

And so, **softer-than-expected US core inflation merely accentuates, but does not underwrite, JPY gains**.

The critical corollary being, **if the BoJ disappoints markets expectations of a hike next week, a sharp JPY sell-off could be a significant risk**.

In fact, the JPY could still wobble if the BoJ delivers a "dovish hike", where it waters down the prospects of sustained tightening.

Inadvertently, the BoJ may find itself painted into a (hawkish) corner. Not just in terms of policy action next week, but also on policy speak. This is highly undesirable for the BoJ, which is in dire need of managing market expectations as it works pout sharp policy trade-offs.

And fleeting relief from soft spots in inflation data unfortunately offer little redemption from the unforgiving juxtaposition of Trump 2.0 (tariff) threats and a Fed dialing back on easing bias. Aggressive, high-conviction long-JPY bets may as such fall short as nimble, opportunistic JPY plays rule.

DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(ID) Bank Indonesia Decision	5.75%	6.00%	6.00%
(KR) Unemployment rate SA (Dec)	3.7%	2.8%	2.7%
(PH) Cash Remittances YoY (Nov)	3.7%	2.9%	2.7%
(US) Empire Manufacturing (Jan)	-12.6	-2.0	0.2
(US) CPI/Ex Food,Energy YoY (Dec)	2.9%/3.2%	2.9%/3.3%	2.7%/3.3%
(US) Real Avg Weekly Earnings YoY (Dec)	0.7%	--	1.0%
(EZ) Industrial Production SA MoM (Nov)	0.2%	--	0.2%
(JP) Machine Tool Orders YoY (Dec P)	11.2%	--	3.0%
Today	Actual	Exp.	Prior
(AU) UnE Rate/Emp. Change (Dec)	4.0%/56k	4.0%/15k	3.9%/36k
(KR) BoK Base Rate		2.75%	3.00%
(US) Initial Jobless Claims		--	201k
(US) Retail Sales Advance MoM (Dec)		0.5%	0.7%
(US) Philadelphia Fed Biz Outlook (Jan)		-8.0	-16.4
(EZ) Trade Balance SA (Nov)		--	6.1b
(EZ) ECB Account of Dec Meeting			
(JP) PPI YoY (Dec)		3.8%	3.7%

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	156.47	156.26	▼0.94%	156.50 - 160.50
EURUSD	1.0289	1.0295	▼0.18%	1.0190 - 1.0440
GBPUSD	1.2242	1.2243	+0.22%	1.2050 - 1.2380
AUDUSD	0.6227	0.6235	+0.52%	0.6120 - 0.6260
DXY	109.1	--	▼0.17%	108.6 - 110.0
USDCNY	7.3319	--	+0.01%	7.3200 - 7.3500
USDCNH	7.3487	7.3467	+0.07%	7.3300 - 7.3700
USDHKD	7.7867	7.7852	▼0.00%	7.7750 - 7.8000
USDSGD	1.3671	1.3664	+0.04%	1.3560 - 1.3780
USDKRW	1455	1457	+0.00%	1450 - 1470
USDTWD	33.07	--	+0.25%	32.70 - 33.15
USDINR	86.36	--	▼0.33%	86.20 - 87.00
USDIR	16320	--	+0.34%	16150 - 16350
USDMYR	4.499	4.499	▼0.20%	4.470 - 4.520
USDPHP	58.61	--	▼0.03%	58.20 - 58.90
USDTHB	34.73	34.56	▼0.10%	34.2 - 34.9
USDVND	25387	25387	▼0.01%	25310 - 25480

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.266	4.654	-10.2	-13.9
JGB (JP)	0.696	1.248	1.7	0.8
Bunds (GE)	2.256	2.559	-5.9	-9.1
Gilts (UK)	4.459	4.729	-13.7	-15.9
AGB (AU)	4.005	4.624	-0.2	1.0
SGS (SG)	2.959	3.077	-0.3	-0.3
CGB (CN)	1.223	1.623	3.9	-1.5
KGB (KR)	2.896	2.732	-9.6	-10.2
SDL (IN)	6.814	6.724	1.8	1.7

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	160.99	160.86	▼1.13%
GBP/JPY	191.531	191.295	▼0.74%
JPY/SGD (100yen)	0.8736	0.8745	+0.98%
JPY/HKD (100yen)	4.9762	4.9824	+0.95%
CNH/JPY	21.343	21.312	▼0.98%
CNH/HKD	1.0622	1.0618	+0.00%
EUR/GBP	0.84054	0.84088	▼0.39%
AUD/NZD	1.1089	1.108	+0.33%
EUR/CNH	7.562	7.5631	▼0.11%
GBP/CNH	8.9965	8.9942	+0.29%

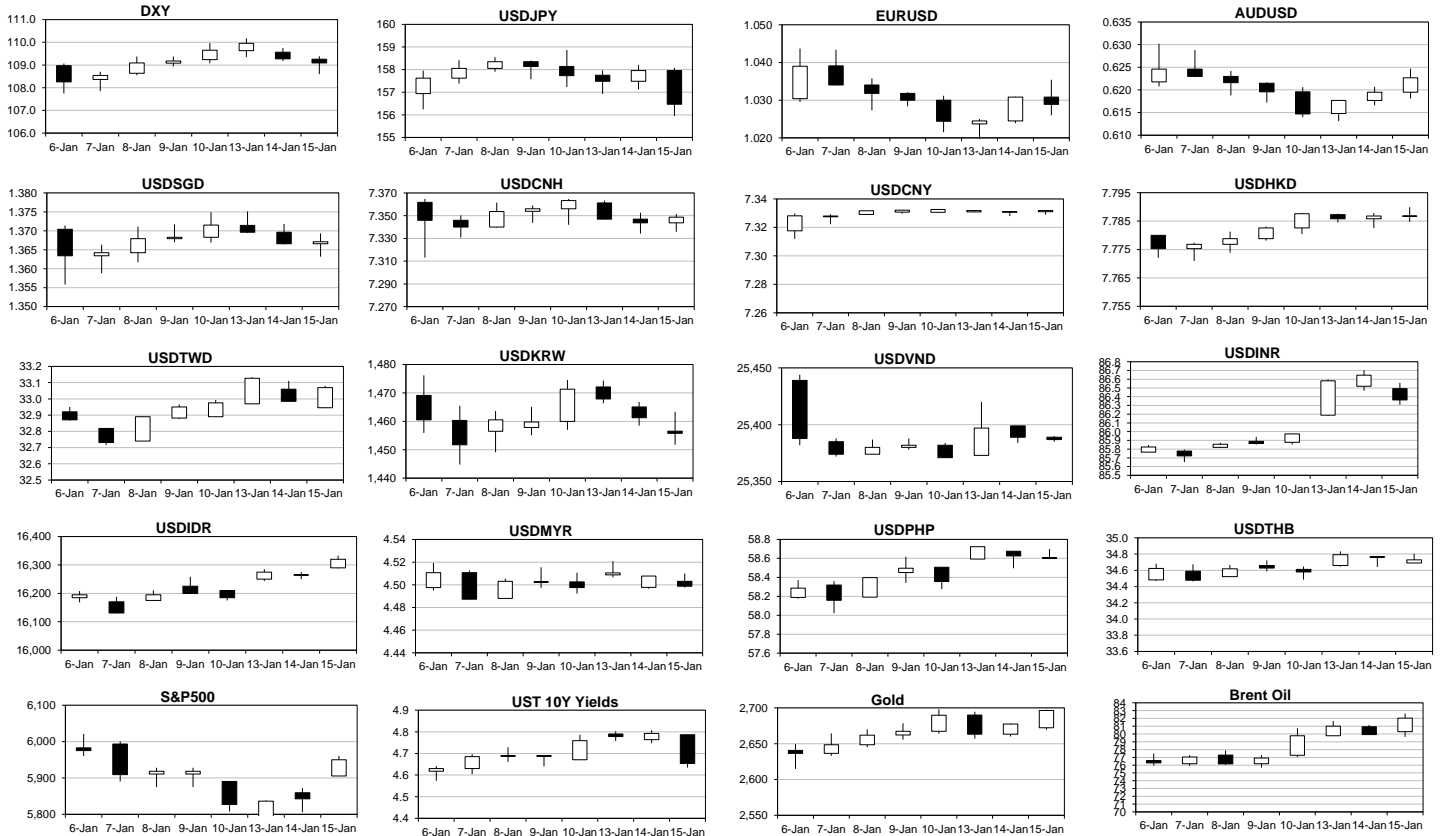
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5949.91	107.00	+1.83%
Nasdaq (US)	19511.23	466.84	+2.45%
DJIA (US)	43221.55	703.27	+1.65%
N225 (JP)	38444.58	-29.72	▼0.08%
STOXX50 (EU)	5032.31	51.84	+1.04%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4518.39	63.40	+1.42%
STI (SG)	3772.58	-16.19	▼0.43%
SHCOMP (CN)	3227.117	-13.82	▼0.43%
SZCOMP (CN)	1901.139	-14.71	▼0.77%
HSI (HK)	19286.07	66.29	+0.34%
SENSEX (IN)	76724.08	224.45	+0.29%
JSE (ID)	7079.562	122.90	+1.77%
KLSE (MY)	1562.12	-14.34	▼0.91%
PSE (PH)	6330.46	30.79	+0.49%
SET (TH)	1353.17	12.92	+0.96%
VNINDEX (VN)	1236.18	0.01	+0.58%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,053.38	19.68	+0.22%
IRON ORE (CN)	99.97	2.61	+0.12%
GOLD	2,696.32	18.86	+0.70%
SILVER	30.65	0.12	+2.90%
OIL (BRENT)	82.03	2.11	+2.64%
OIL (WTI)	80.04	2.54	+3.28%
NATURAL GAS	4.08	0.75	+2.51%

CHARTS



RESEARCH TEAM

Vishnu Varathan | Serena Zhou | Ken Cheung | Tan Boon Heng | Tan Jing Yi

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