

Jan 17, 2025

Three Take-Aways

- 1) Yields dip and USD slips modestly as Fed's Waller flags scope for 3-4 cuts for 2025, and March cut prospects if data cooperate.
- 2) Bessent's confirmation hearing hits all the right noises on fiscal/debt integrity, USD dominance, trade and Fed.
- 3) China's Q4 GDP silver lining of bottoming growth may however fall short of allaying deflation concerns.

MACRO THEME: The Unnoticed Bessent-Waller Tango

No one appears to be paying attention to, or aware of, the **tango between Fed's Waller** and in-coming **Treasury Secretary Bessent**. To be fair, *even Waller and Bessent are probably not aware that they are dancing on the same dance floor*.

And to be absolutely clear, this is **not a contravention of Fed independence**, which Bessent has wisely backed unequivocally.

The Lower Rates Tango: The (Waller-Bessent) **tango in question is to the tune of lower rates**.

"Waller Warrant": Fed's **Waller judges that dis-inflation warrants** more, not fewer cuts, and thus lower rates.

"Bessent Bridge": And Bessent's challenging "Three 3s" aspirations necessarily require lower rates.

"Goldilocks USD": Another trophy from the "Waller-Bessent tango" is a **"Goldilocks USD"**: i) unchallenged in utility as the global reserve currency from stability; ii), but not unnecessarily hobbled in its manufacturing aspirations by excessive strength.

The hope than is neither the music does not stop. But for now,

Bessent's Hits the Right Notes ...

Admittedly, **Bessent's confirmation hearing has made all the right noises** on; i) *fiscal discipline*; ii) *debt management*; iii) *critical USD dominance (as the global reserve currency)*; iv) *tackling trade imbalances* and; v) *Fed independence*.

Tax vs. Spending (Cuts): Specifically, he assured of **"fiscal house in order"** by **balancing "job-creating" tax against cuts to "wasteful spending"** (albeit judiciously so).

Debt Assurance: Moreover, he **dismissed US debt default** on his watch. His preference to manage debt efficaciously to diminish market friction or mismatch also lent itself to bullish turn in bonds (slightly softer yields).

USD as the Uncontested Reserve Currency: His view on the **USD's role as the unchallenged global reserve currency** being **critical underpins USD stability**, but without stoking excessive USD strength.

Tariffs, Security & Inflation: Especially when **balanced with the desire for a competitive trade policy aimed** that is trained on securing US' strategic supply chains, boosting industrial competitiveness and creating jobs.

Fed Independence: Finally, Bessent unequivocally said that the Fed should absolutely be independent.

DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(AU) UnE Rate/Emp. Change (Dec)	4.0%/56k	4.0%/15k	3.9%/36k
(KR) BoK Base Rate	3.00%	2.75%	3.00%
(US) Initial Jobless Claims	217k	210k	203k
(US) Retail Sales Advance MoM (Dec)	0.4%	0.6%	0.7%
(US) Philadelphia Fed Biz Outlook (Jan)	44.3	-8.0	-16.4
(EZ) Trade Balance SA (Nov)	12.9b	11.5b	7.0b
(EZ) ECB Account of Dec Meeting			
(JP) PPI YoY (Dec)	3.8%	3.8%	3.7%
Today	Actual	Exp.	Prior
(MY) GDP/Annual YoY (4Q/2024 A)		5.2%/5.2%	5.3%/3.7%
(SG) NODX/Electronics Exports YoY (Dec)		7.8%/--	3.4%/23.2%
(CH) Ind. Pdn/Retail Sales YoY (Dec)		5.4%/3.6%	5.4%/3.0%
(CH) FAI/Property Investment YTD YoY (Dec)		3.3%/-10.4%	3.3%/-10.4%
(CH) Surveyed Jobless Rate (Dec)		5.0%	5.4%
(CH) GDP YoY/SA QoQ (4Q)		5.0%/1.7%	4.6%/0.9%
(US) Housing Starts/Building Permits (Dec/P)		1327k/1460k	1289k/1493k
(US) Industrial Production MoM (Dec)		0.3%	-0.1%
(EZ) CPI/Core YoY (Dec F)		2.4%/2.7%	2.4%/2.7%

This immediately allays debt monetization and debasement risks.

The Bessent Trade: On the face of it, the **"Bessent trade" appears to bullish USTs generally. And buying long-end USTs on excessive dips** (dampening excessively elevated long-yields) for the more cautious.

Trump Hijack: But **ahead of Trump's inauguration, uncertainty is likely to get in the way** of setting these up as conviction trades.

... But (Confirmation) Hearing Not Saying Much

Notably, for all the feel-good reassurances from the confirmation hearing, Bessent is not really saying much on the "how".

Point being, there remains a **conspicuous absence of details** on the various polices (from USD to debt to trade).

What's more, with **Bessent's "Three 3s"**, **there are still more questions than answers**. For a start, *simultaneously getting growth to 3% whilst almost halving fiscal deficit to 3% border on being incompatible*. What's more, O&G industry watchers are not convinced about wringing *out another 3MBpD of Oil* (equivalent). Not when current record output (of >13MBpD) and bottom-line/cash-flow are not compelling.

So, despite the fundamental bullish UST (lower yield) implications Bessent, the ability to durably rein in long-end yields could be somewhat challenged by lack of details, doubt and uncertainty.

* "Three 3s" being a reference to Bessent's target of 3% growth; 3% deficit and 3MBpD more of Oil (equivalent) output.

Yields (2Y: -3.5bp; 10Y: -4.0bp, 30Y: -2.3bp)

UST yields declined on softer retail sales and dovish Fed speak.

Equities (Nasdaq: -0.9%; S&P 500: -0.2%; Dow: -0.2%)

US Stocks slipped led by the Nasdaq's sharper decline.

FX (DXY: -0.1%)

USD weakened against G10 peers. JPY led gains on prospects on BoJ hike while AUD hovers above 62 cents.

China: Of Growth & Deflation

China's Q4 GDP is expected to pick-up to the ballpark of 5%, underpinning efforts to get stimulus on the ground.

More likely than not, this is **square with nascent signs of recovering domestic demand** (retail sales).

Alongside *assumption of Beijing's "dry gunpowder" to be deployed as Trump 2.0 response*, this may **inspire resultant (relative) growth buoyancy**. **But** the irony is that even as growth hopes may be inspired, it **deflation concerns may be far harder to put to bed**.

This **underscores the dissonance between private sector confidence deficit** and **state-driven ramp up in industrial momentum** amid heightened geoeconomic uncertainties.

And so, **CGB bull flattens** may remain a **distinct risk** in the near-term term, albeit subject to intervention volatility. **And looking past data relief, CNH downside threats also persist in the months ahead**

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	155.16	155.37	▼0.84%	154.00 - 158.00
EURUSD	1.0301	1.0301	+0.12%	1.0220 - 1.0400
GBPUSD	1.2239	1.2235	▼0.02%	1.2050 - 1.2310
AUDUSD	0.6213	0.6210	▼0.22%	0.6140 - 0.6260
DXY	109.0	--	▼0.12%	108.6 - 110.0
USDCNY	7.3316	--	▼0.00%	7.3200 - 7.3500
USDCNH	7.3469	7.3472	▼0.02%	7.3300 - 7.3700
USDHKD	7.7871	7.7878	+0.01%	7.7750 - 7.8000
USDSGD	1.3670	1.3670	▼0.01%	1.3560 - 1.3740
USDKRW	1454	1457	+0.00%	1440 - 1470
USDTWD	32.94	--	▼0.40%	32.70 - 33.15
USDINR	86.55	--	+0.22%	86.20 - 87.00
USDIDR	16360	--	+0.25%	16200 - 16500
USDMYR	4.503	4.502	+0.09%	4.470 - 4.520
USDPHP	58.60	--	▼0.02%	58.20 - 58.90
USDTHB	34.60	34.58	▼0.37%	34.2 - 34.9
USDVND	25379	25381	▼0.03%	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)	4.231	4.614	-3.5	-4.0
JGB (JP)	0.686	1.201	-1.0	-4.7
Bunds (GE)	2.227	2.544	-2.8	-1.5
Gilts (UK)	4.377	4.679	-8.1	-5.1
AGB (AU)	3.914	4.497	-9.1	-12.7
SGS (SG)	2.899	2.997	-5.7	-8.0
CGB (CN)	1.232	1.638	0.9	1.5
KGB (KR)	2.812	2.705	-2.3	-3.5
SDL (IN)	6.748	6.674	-0.2	-1.0

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	159.85	160.04	▼0.71%
GBP/JPY	189.896	190.081	▼0.85%
JPY/SGD (100yen)	0.8806	0.8799	+0.80%
JPY/HKD (100yen)	5.0191	5.0126	+0.86%
CNH/JPY	21.188	21.191	▼0.73%
CNH/HKD	1.0623	1.0622	+0.01%
EUR/GBP	0.84161	0.84196	+0.13%
AUD/NZD	1.1081	1.1075	▼0.07%
EUR/CNH	7.568	7.5684	+0.08%
GBP/CNH	8.9911	8.9889	▼0.06%

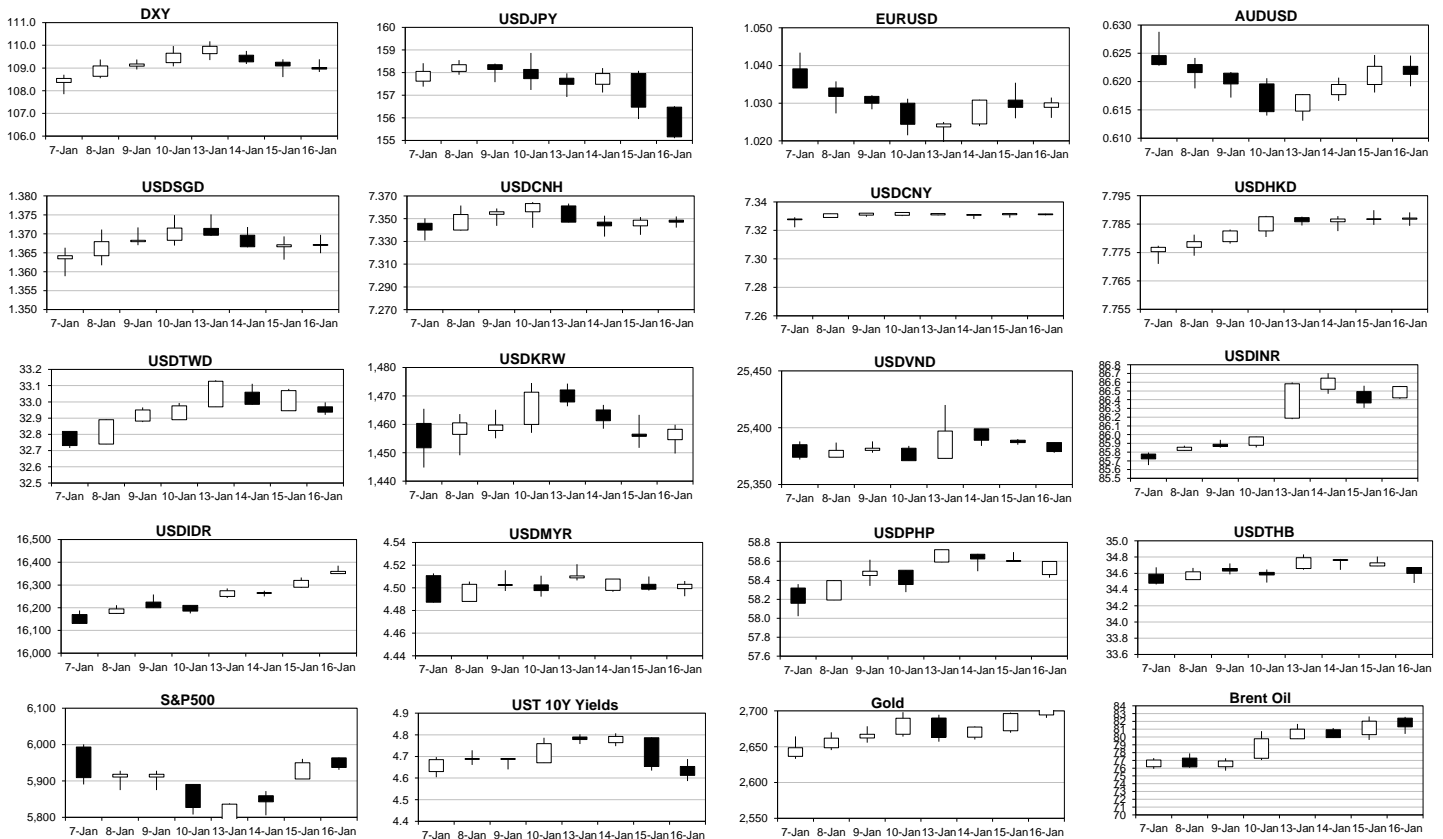
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G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5937.34	-12.57	▼0.21%
Nasdaq (US)	19338.29	-172.94	▼0.89%
DJIA (US)	43153.13	-68.42	▼0.16%
N225 (JP)	38572.6	128.02	+0.33%
STOXX50 (EU)	5106.93	74.62	+1.48%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4566.59	48.20	+1.07%
STI (SG)	3801.13	28.55	+0.76%
SHCOMP (CN)	3236.032	8.91	+0.28%
SZCOMP (CN)	1909.448	8.31	+0.44%
HSI (HK)	19522.89	236.82	+1.23%
SENSEX (IN)	77042.82	318.74	+0.42%
JSE (ID)	7107.519	27.96	+0.39%
KLSE (MY)	1555.54	-6.58	▼0.42%
PSE (PH)	6265.52	-64.94	▼1.03%
SET (TH)	1352.56	-0.61	▼0.05%
VNINDEX (VN)	1242.36	0.00	+0.50%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,123.09	69.71	+0.77%
IRON ORE (CN)	101.02	3.20	+1.05%
GOLD	2,714.31	17.99	+0.67%
SILVER	30.81	0.18	+4.29%
OIL (BRENT)	81.29	-0.74	▼0.90%
OIL (WTI)	78.68	-1.36	▼1.70%
NATURAL GAS	4.26	0.16	+0.53%

CHARTS



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