

Jan 23, 2025

## Three Take-Aways

- 1) Rally in US equities lack breadth; UST yields higher despite cuts to federal workforce may allude to weak confidence in lowering US fiscal debt left.
- 2) Trump's new tax department unlikely to have proclaimed impact of collecting revenues from foreigners.
- 3) Beware of disappointment even if BoJ hikes as any dovish leanings may fall short of expectations.

## MACRO THEME: Lacking Conviction?

- US equities were led higher by big tech following Trump's talk of an AI infrastructure push. Nonetheless, the climb revealed poor breadth with non-tech counters mostly lower.

- Meanwhile, UST yields closed higher despite Trump's administration rolling out concrete actions at the government's diversity, equity and inclusion (DEI) programmes\*, which could suggest that conviction on fiscal consolidation remains on shaky ground.

\*The Trump administration ordered federal DEI employees to be placed on leave no later than Wednesday and for DEI offices to be closed down. These employees will eventually be laid off or reassigned. Contractors must also certify that they do not operate programs that violate federal non-discrimination rules related to DEI.

**Yields (2Y: +2.5bp; 10Y: +3.5bp; 30Y: +1.6bp)**

- UST yields moved higher across the curve.

**Equities (Nasdaq: +1.3%; S&P 500: +0.6%; Dow: +0.3%)**

- US equities climbed; with tech-heavy Nasdaq outperforming.

**FX (DXY: +0.1%)**

- The USD strengthened against most G10 currencies. JPY underperformed, with USD/JPY climbing to mid-156 levels. EUR was mostly above 1.04 levels and AUD mostly traded above mid-62 cents. Elsewhere, USD/SGD was hovered above 1.35 levels.

## Trump's External Revenue Services: All Bottle, and No Wine?

- President Trump's proposal for a new tax collection department, the External Revenue Services (ERS), "to collect revenues\* from foreigners to enrich Americans" is more optics than economics.

- It neither generates new tax revenues (beyond those imposed by tightening trade/tariff policies) nor does it determine who ultimately bears the cost (or more accurately, how the costs are distributed).\*\*

- Point being, splitting hairs between US importers or foreign exporters paying the tax/tariff/duties/levies changes few outcomes, unlike trade policies that drive/determine the scope and scale of revenues to be collected.

- First, ERS tax collections may merely transfer revenue collections from the Customs and Border Protection (CBP). Essentially, demarcating the turf on cross-border taxes between those derived from US importers and foreign exporters.

- Second, and crucially, the ERS cannot reliably ensure that the entity

making the taxes/tariffs is the one that ultimately bears the cost of the tariffs. Fact is, between the foreign exporters, US importer and US consumer, the cost of the tariffs could be distributed very differently depending on the relative supply dominance of the exporter and the pricing power of the importer.

- The upshot is that the ERS risks being all bottle and no wine in terms of fundamentally changing the dynamics of tariffs. To be the one making the payment and to be the one ultimately paying for it (bearing the cost) are not one and the same.

\* "revenues", for the purposes of this report, refer to tax revenues derived from taxes, tariffs, duties and levies.

\*\* Analogous to having no significant impact on growth (new revenue generation) or distribution (who bears the cost), which are arguably the two pursuits of all economic causes.

## China: Stabilisers?

- Chinese shares fell on Trump's comments that a 10% tariff on Chinese imports was still on the table. The Chinese Securities Regulatory Commission also announced a basket of measures to stabilise its stock markets, including plans to boost the amount pension can invest in the nation's listed companies, and encourage share repurchases and dividends.

## The BoJ Painted into a Corner

- **Growing (bordering on overt) willingness by the BoJ to hike in January** (at tomorrow's meeting) does not distract from the fact that the **BoJ is painted into a (hawkish) corner**.

- First and foremost, in terms of the *expected policy action* – a rate hike – and the *accompanying "policy speak"* that frames the hike. And *crucially*, and *perhaps most problematically* for the BoJ, **on policy guidance**.

- The first order risk is that the **BoJ now cannot afford to disappoint markets strident hike expectations**, as the **resultant volatility threatens is undesirable, potentially even destabilizing**. The associated **stakes are higher given JPY surge**, marked by JPY out-performance – **has built up on rate hike/hawkish BoJ expectations**.

- 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**.

- But the follow-up, "shifting goalpost" risk that is harder-to-tame is that markets quickly ramp up on hawkish expectation in the "what next?" style.

- The attendant threat then is that the JPY could still wobble if the BoJ delivers a "dovish hike", where it waters down the prospects of sustained tightening. Potentially accentuating this threat may be unhelpful benchmarking against the Fed and other G4 central bank rates.

- This is **highly undesirable** for the BoJ, which has to grapple with being *held ransom by markets whilst facing sharp policy trade-offs* with debilitating economic consequences. Unfortunately, *fleeting and shallow relief from soft spots in US inflation data offer little redemption from the unforgiving juxtaposition of Trump 2.0 (tariff) threats and a Fed dialing back on easing bias*. And so, aggressive, **high-conviction long-JPY bets may as such fall short as nimble, opportunistic JPY plays rule**.

## DATA/EVENTS

| Yesterday                             | Actual       | Exp.         | Prior        |
|---------------------------------------|--------------|--------------|--------------|
| <b>(MY) BNM Overnight Policy Rate</b> | <b>3.00%</b> | <b>3.00%</b> | <b>3.00%</b> |
| (MY) CPI YoY (Dec)                    | 1.7%         | 1.8%         | 1.8%         |
| (TW) Unemployment Rate (Dec)          | 3.4%         | 3.4%         | 3.4%         |
| (US) Leading Index (Dec)              | -0.1%        | -0.1%        | 0.3%         |
| Today                                 | Actual       | Exp.         | Prior        |
| (SG) CPI/Core YoY (Dec)               |              | 1.5%/1.7%    | 1.6%/1.9%    |
| (KR) GDP YoY/SA QoQ (4Q A)            | 1.2%/0.1%    | 1.4%/0.2%    | 1.5%/0.1%    |
| (TW) Industrial Production YoY (Dec)  |              | 13.5%        | 10.3%        |
| (US) Initial Jobless Claims           |              | 220k         | 217k         |
| (EZ) Consumer Confidence (Jan P)      |              | -14.3        | -14.5        |
| (JP) Trade Balance (Dec)              | ¥130.9b      | -¥68.5b      | -¥110.3b     |
| (US) Kansas City Fed Mfg Acty         |              | 0            | -4           |

## FX OUTLOOK

| FX     | Close (NY) | Open*  | Daily %Δ | Forecast        |
|--------|------------|--------|----------|-----------------|
| USDJPY | 156.53     | 156.44 | +0.65%   | 155.00 - 157.50 |
| EURUSD | 1.0409     | 1.0408 | ▼0.18%   | 1.0340 - 1.0480 |
| GBPUSD | 1.2316     | 1.2314 | ▼0.28%   | 1.2230 - 1.2430 |
| AUDUSD | 0.6274     | 0.6273 | +0.00%   | 0.6220 - 0.6320 |
| DXY    | 108.2      | --     | +0.10%   | 107.6 - 108.7   |
| USDCNY | 7.2762     | --     | +0.15%   | 7.2500 - 7.3000 |
| USDCNH | 7.2814     | 7.2820 | +0.19%   | 7.2500 - 7.3100 |
| USDHKD | 7.7885     | 7.7879 | +0.04%   | 7.7730 - 7.8000 |
| USDSGD | 1.3555     | 1.3553 | +0.20%   | 1.3480 - 1.3640 |
| USDKRW | 1436       | 1436   | +0.00%   | 1425 - 1445     |
| USDTWD | 32.78      | --     | +0.02%   | 32.60 - 33.00   |
| USDINR | 86.33      | --     | ▼0.29%   | 86.00 - 86.70   |
| USDIR  | 16285      | --     | ▼0.31%   | 16200 - 16400   |
| USDMYR | 4.436      | 4.437  | ▼0.90%   | 4.410 - 4.470   |
| USDPHP | 58.51      | --     | +0.03%   | 58.20 - 58.80   |
| USDTHB | 33.82      | 33.91  | ▼0.82%   | 33.7 - 34.1     |
| USDVND | 25098      | 25109  | ▼0.69%   | 25000 - 25250   |

\*Open is as at 8am HKT/SGT.

## MARKET MOVES

| Bond Yields | 2Y Close | 10Y Close | 2Y Δ (bps) | 10Y Δ (bps) |
|-------------|----------|-----------|------------|-------------|
| UST (US)    | 4.300    | 4.612     | 2.5        | 3.5         |
| JGB (JP)    | 0.686    | 1.191     | 1.6        | 0.5         |
| Bunds (GE)  | 2.234    | 2.529     | 2.2        | 2.0         |
| Gilts (UK)  | 4.348    | 4.631     | 1.9        | 4.2         |
| AGB (AU)    | 3.909    | 4.460     | 4.9        | 5.5         |
| SGS (SG)    | 2.832    | 2.928     | -1.6       | -0.4        |
| CGB (CN)    | 1.257    | 1.657     | -0.4       | 0.1         |
| KGB (KR)    | 2.835    | 2.650     | 1.6        | 2.5         |
| SDL (IN)    | 6.723    | 6.639     | 0.6        | 1.6         |

| Cross FX         | Close (NY) | Open*   | Daily %Δ |
|------------------|------------|---------|----------|
| EUR/JPY          | 162.93     | 162.82  | +0.49%   |
| GBP/JPY          | 192.774    | 192.626 | +0.39%   |
| JPY/SGD (100yen) | 0.8659     | 0.8664  | ▼0.47%   |
| JPY/HKD (100yen) | 4.9757     | 4.9784  | ▼0.61%   |
| CNH/JPY          | 21.519     | 21.499  | +0.48%   |
| CNH/HKD          | 1.0704     | 1.0703  | ▼0.18%   |
| EUR/GBP          | 0.8452     | 0.84525 | +0.11%   |
| AUD/NZD          | 1.1075     | 1.1077  | +0.24%   |
| EUR/CNH          | 7.5796     | 7.5791  | +0.00%   |
| GBP/CNH          | 8.9686     | 8.9667  | ▼0.06%   |

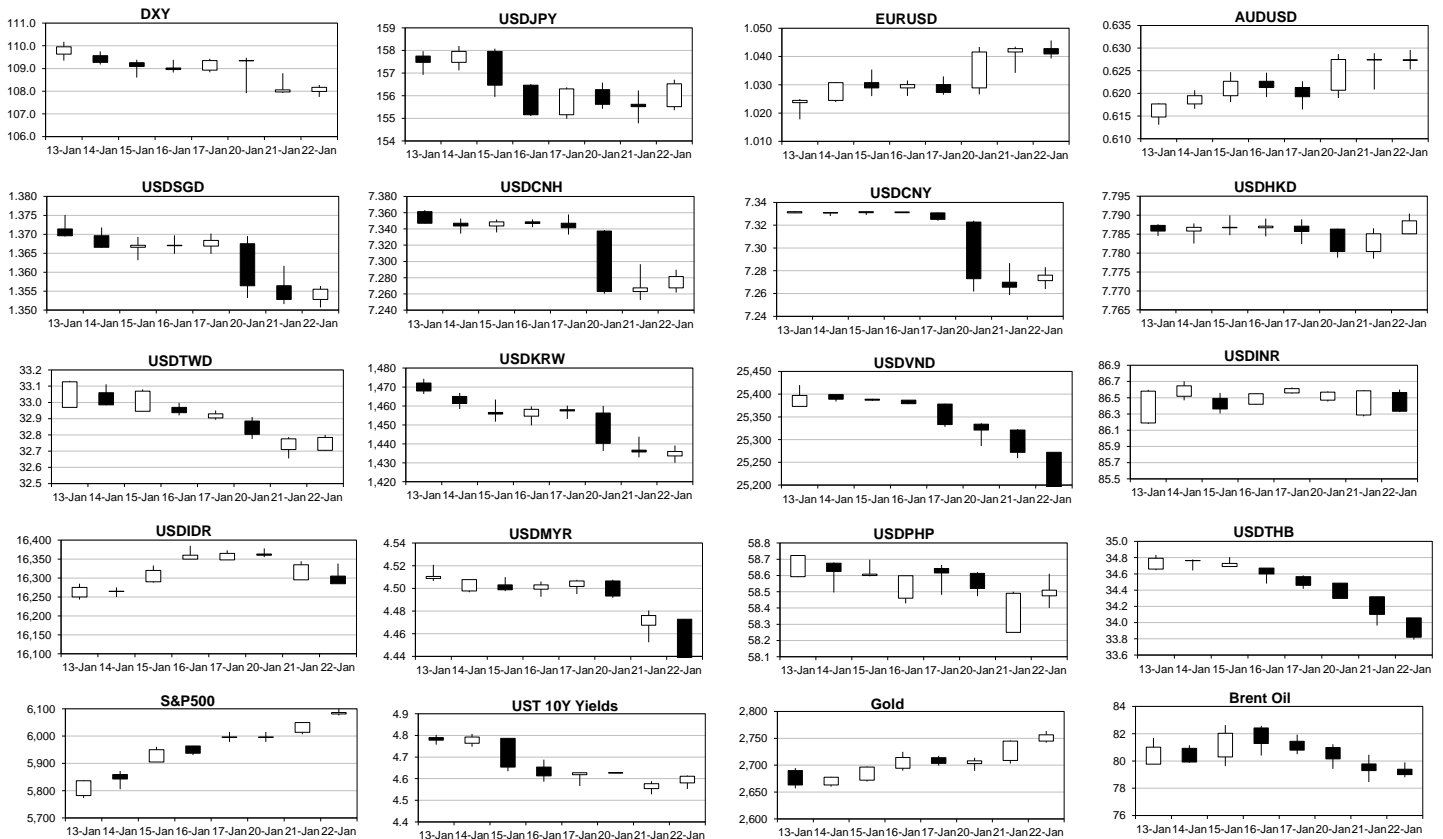
\*Open is as at 8am HKT/SGT.

| G3 Equities  | Close    | Net Chg | Daily %Δ |
|--------------|----------|---------|----------|
| S&P500 (US)  | 6086.37  | 37.13   | +0.61%   |
| Nasdaq (US)  | 20009.34 | 252.56  | +1.28%   |
| DJIA (US)    | 44156.73 | 130.92  | +0.30%   |
| N225 (JP)    | 39646.25 | 618.27  | +1.58%   |
| STOXX50 (EU) | 5205.83  | 39.87   | +0.77%   |

| Asia Equities | Close    | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| ASX (AU)      | 4639.77  | -1.99   | ▼0.04%   |
| STI (SG)      | 3781.21  | -14.16  | ▼0.37%   |
| SHCOMP (CN)   | 3213.624 | -29.00  | ▼0.89%   |
| SZCOMP (CN)   | 1920.427 | -19.27  | ▼0.99%   |
| HSI (HK)      | 19778.77 | -327.78 | ▼1.63%   |
| SENSEX (IN)   | 76404.99 | 566.63  | +0.75%   |
| JSE (ID)      | 7257.128 | 75.31   | +1.05%   |
| KLSE (MY)     | 1587.8   | 7.34    | +0.46%   |
| PSE (PH)      | 6348.34  | 8.13    | +0.13%   |
| SET (TH)      | 1361.77  | 9.24    | +0.68%   |
| VNINDEX (VN)  | 1242.53  | 0.00    | ▼0.29%   |

| Commodity     | Close    | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| COPPER (LME)  | 9,105.45 | -63.43  | ▼0.69%   |
| IRON ORE (CN) | 101.42   | 1.45    | ▼0.36%   |
| GOLD          | 2,756.48 | 11.67   | +0.43%   |
| SILVER        | 30.83    | 0.20    | +5.43%   |
| OIL (BRENT)   | 79.00    | -0.29   | ▼0.37%   |
| OIL (WTI)     | 75.44    | -0.45   | ▼0.59%   |
| NATURAL GAS   | 3.96     | 0.05    | +0.15%   |

## CHARTS



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