

Jan 28, 2025

Three Take-Aways

- 1) Soft risk sentiment as DeepSeek raises questions on US megacaps valuations and US' technology dominance.
- 2) ECB to cut another 25bps amid growth concerns.
- 3) Accelerating growth in Q4 will still see Philippines miss 2024 GDP growth target.

MACRO THEME: Face-Off?

- Risk sentiments took a hit as the AI model developed by Chinese startup DeepSeek sparked concerns that valuations of US AI chips could be tough to justify. DeepSeek's free, open-sourced model was claimed to be developed under \$6m, raising doubts about whether the spending on AI by US megacaps (and their attendant valuations) were justified.

- But against the backdrop of Trump 2.0, markets are arguably also unnerved that DeepSeek's rise may be a harbinger that the face-off between US and China would intensify again, after some trade antagonism relief in recent days. Point being, Washington's trade restrictions had kept the most cutting-edge chips out of China's hands, but DeepSeek's model was claimed to be trained using less advanced Nvidia products, challenging the notion that China's AI technology is years behind US counterparts.

- It also certainly did not help matters that Trump has been solidifying the view that tariffs will be a key policy tool to resolve cross-border issues beyond trade. Yesterday, Trump had unsettled markets by ordering tariffs against Colombia because of a dispute over migrants before holding the tariffs in reserve after the country agreed to Trump's terms; and early this morning, Trump said he will be placing tariffs on steel, aluminum and copper.

Yields (2Y: -6.9bp; 10Y: -8.7bp; 30Y: -7.6bp)

- USTs rallied (and yields fell) on haven demand.

Equities (Nasdaq: -3.1%; S&P 500: -1.5%; Dow: +0.7%)

- US equities indexes were mostly lower, as the sell-off in tech outweighed the climb in defensive consumer staples and health care counters.

FX (DXY: -0.1%)

- Amid soft risk sentiments, haven currencies JPY and CHF strengthened against the greenback, while other G10 currencies traded weaker.

China: Soft PMIs

- China's factory activity shrank in January after three months of expansion, led lower by Output and New Export Orders. Official interpretation attributed the decline in PMIs to Spring Festival seasonality and the related labor departure to hometowns.

- In addition to seasonality factors, we think that US tariff threats and waning optimism on China's stimulus package might have dampened sentiment for manufacturers. Having front-loaded pre-tariff export

orders, producers are awaiting updates from Trump's policies after his inauguration. In the meantime, the government may not announce more significant stimulus measures until the National People's Congress in March, hence manufacturers might reduce their production more significantly during the CNY holiday break.

ECB: Soft Landing and Weak Engines

- The **ECB remains all set for a 25bp rate cut for the coming week** with ECB President Lagarde saying that they are not behind the curve and are on this sort of **regular, gradual path**.

- At first glance, **headline and core inflation hovering at 2.4% and 2.7% in December appear troubling**. But this is likely well within the ECB's expectations with ECB Schnabel seeing **no major risks on attaining the 2% target**. Higher US energy output may also assist to tame headline inflation in the months ahead even as import price passthrough from a weaker EUR and potential tariffs worry. **The risks remain skewed towards the growth front with the potential for trade conflicts to weigh on growth and consequently prices**. Notably, ECB Vujcic indicated that ECB have engineered a soft landing, but growth may be difficult to "take off" from now. He did not express disagreement with markets' pricing of 4 cuts in 2025.

- All said, there remains policy room for ECB to cut, especially if growth turns out worse and if tariffs worst fears are realised. In turn, it looks to be a difficult time for EUR bulls to tide through.

Philippines Q4 GDP: Missed Target

- **Philippines Q4 GDP growth is expected to print at around 5.8% YoY** (Q3: 5.2%), bringing overall 2024 growth to 5.8% YoY (2023: 5.5%), shy of the government's 6.0-6.5% target.

- **Agriculture growth could revert to expansion, or at least see a smaller contraction** after two-quarters of YoY contraction (Q2: -2.2%; Q3: -2.8%). The Philippines Statistics Authority has estimated palay production in Q4'24 to be higher than Q4'23, which may offset the contraction in corn production.

- **Industry sector should accelerate (Q3: 5.0%)** as industrial production data indicated continued electronic tailwinds. Meanwhile, **construction activity should still remain supported or even accelerate** (Q3: 9.0%) as private construction in October was buoyant while government expenditure in Oct-Nov accelerated, which could correspond to higher spending in infrastructure. These should more than offset subdued growth in mining and quarrying.

- **Services could remain stable amid mixed sectoral performance**. Tourism-oriented services such as accommodation and food services should continue to outperform more domestic-oriented services (e.g. wholesale & retail trade). This would likely be reflected in a moderation in domestic consumption from an expenditure basis. Surveys conducted by Social Weather Stations in December indicated the highest self-rated poverty in 21 years, and highest percentage of households experiencing involuntary hunger since the pandemic.

- All in, apart from missing its growth target, deteriorating consumer sentiment ought to see BSP retain its easing bias.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	154.51	154.92	▼0.96%	152.80 - 156.80
EURUSD	1.0492	1.0444	▼0.05%	1.0330 - 1.0520
GBPUSD	1.2499	1.2459	+0.12%	1.2320 - 1.2550
AUDUSD	0.6293	0.6264	▼0.33%	0.6200 - 0.6320
DXY	107.3	--	▼0.09%	106.8 - 108.0
USDCNY	7.2446	--	+0.05%	7.2300 - 7.2800
USDCNH	7.2522	7.2704	+0.11%	7.2400 - 7.2900
USDHKD	7.7882	7.7882	+0.02%	7.7750 - 7.8000
USDSGD	1.3445	1.3490	▼0.13%	1.3400 - 1.3640
USDKRW	1431	1434	+0.00%	1425 - 1445
USDTWD	32.69	--	+0.00%	32.50 - 33.00
USDINR	86.34	--	+0.16%	86.00 - 86.70
USDIR	16173	--	+0.00%	16050 - 16350
USDMYR	4.380	4.379	+0.06%	4.330 - 4.440
USDPHP	58.44	--	+0.19%	58.10 - 58.80
USDTHB	33.70	33.88	+0.14%	33.6 - 34.1
USDVND	25081	25084	▼0.02%	25000 - 25200

*Open is as at 8am HKT/SGT.

DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(JP) Leading Index CI (Nov F)	107.5	--	107.0
(GE) IFO Business Climate (Jan)	85.1	84.8	84.7
(US) Chicago Fed Nat Activity Index (Dec)	0.15	-0.06	-0.01
(US) New Home Sales (Dec)	698k	675k	674k
(US) Dallas Fed Mfg Activity (Jan)	14.1	0.0	4.5
(CH) Industrial Profits YoY (Dec)	11.0%	--	-7.3%
(CH) Mfg/Non-Mfg PMI (Jan)	49.1/50.2	50.1/52.2	50.1/52.2
(SG) Unemployment Rate SA (Dec)	1.9%	--	1.8%
Today/Over the Holidays	Actual	Exp.	Prior
(US) Conf Board Consumer Confidence (Jan)		105.9	104.7
(US) Durable Goods Orders/Nondef Ex Air (Dec P)		0.6%/0.3%	-1.2%/0.4%
(AU) CPI YOY (Dec/4Q)		2.5%/2.5%	2.3%/2.8%
(US) FOMC (Lower/Upper Bound)		4.25%/4.50%	4.25%/4.50%
(PH) GDP YoY/SA QoQ		5.5%/1.9%	5.2%/1.7%
(US) GDP Annualized QoQ (4Q A)		2.7%	3.1%
(EZ) Unemployment Rate (Dec)		6.3%	6.3%
(EZ) ECB Deposit Facility Rate		2.75%	3.00%
(EZ) GDP SA YoY/QoQ (4Q A)		1.0%/0.1%	0.9%/0.4%

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.199	4.535	-6.9	-8.7
JGB (JP)	0.691	1.206	-1.7	-1.7
Bunds (GE)	2.286	2.530	0.0	-3.8
Gilts (UK)	4.282	4.585	-3.9	-4.3
AGB (AU)	3.894	4.475	0.0	-0.1
SGS (SG)	2.798	2.882	-2.2	-4.0
CGB (CN)	1.258	1.627	-4.2	-2.7
KGB (KR)	2.858	2.660	-7.6	-6.9
SDL (IN)	6.680	6.596	-1.5	-1.7

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	162.12	161.79	▼0.95%
GBP/JPY	193.126	193.001	▼0.82%
JPY/SGD (100yen)	0.8706	0.8712	+0.89%
JPY/HKD (100yen)	5.0437	5.0305	+1.04%
CNH/JPY	21.295	21.365	▼1.03%
CNH/HKD	1.0751	1.075	▼0.05%
EUR/GBP	0.83944	0.83826	▼0.14%
AUD/NZD	1.1053	1.1052	▼0.08%
EUR/CNH	7.6109	7.595	+0.05%
GBP/CNH	9.063	9.0572	+0.23%

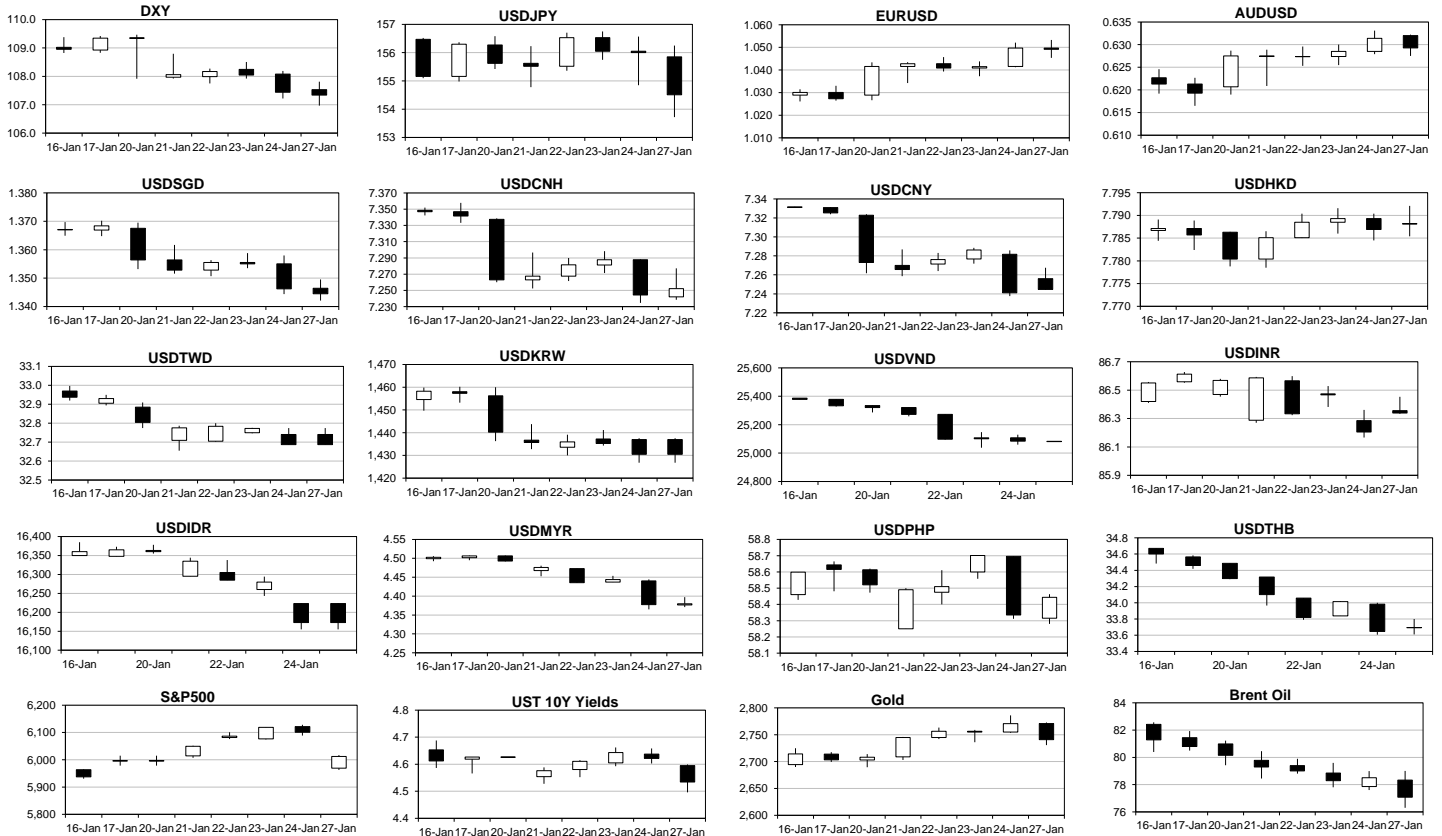
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6012.28	-88.96	▼1.46%
Nasdaq (US)	19341.83	-612.47	▼3.07%
DJIA (US)	44713.58	289.33	+0.65%
N225 (JP)	39565.8	-366.18	▼0.92%
STOXX50 (EU)	5188.45	-30.92	▼0.59%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4613.88	-4.05	▼0.09%
STI (SG)	3796.71	-7.55	▼0.20%
SHCOMP (CN)	3250.601	-2.03	▼0.06%
SZCOMP (CN)	1911.088	-25.26	▼1.30%
HSI (HK)	20197.77	131.58	+0.66%
SENSEX (IN)	75366.17	-824.29	▼1.08%
JSE (ID)	7166.056	0.00	+0.00%
KLSE (MY)	1558.97	-14.76	▼0.94%
PSE (PH)	6196.88	-99.32	▼1.58%
SET (TH)	1340.94	-13.13	▼0.97%
VNINDEX (VN)	1265.05	0.00	+0.00%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,972.06	-184.19	▼2.01%
IRON ORE (CN)	101.54	0.01	▼0.05%
GOLD	2,740.81	-29.77	▼1.07%
SILVER	30.22	-0.33	▼8.19%
OIL (BRENT)	77.08	-1.42	▼1.81%
OIL (WTI)	73.17	-1.49	▼2.00%
NATURAL GAS	3.70	-0.37	▼1.20%

CHARTS



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