

Feb 18, 2025

Three Take-Aways

1) Europe's need for defence spending saw European yields head higher while EUR soften.

2) THB underperformed on Q4 GDP disappointment which reveals cautious business sentiments as business remain wary of restocking inventory and investment spending.

3) RBA set for a tight decision in a tough balancing act between cutting today or in April. A hawkish cut may edge out.

MACRO THEME: On the Back Foot

- With US markets (Stocks and Bonds) closed for Presidents Day, EU politics and markets naturally took centre stage.

- European yield rose with 10Y German Bund yields rising 5.7bp as bonds sold off on the **need for greater borrowing on defence spending**. Meanwhile, Euro Stoxx rose on defence related stocks. This comes as the US queried European allies on possible reactions to attacks on peace keeping troops by Russia. Consequently, EUR underperformed G10 peers even as the likes of ECB's Holzman said that decisions to lower interest rates are becoming more difficult and the ECB is already moving into neutral or slightly expansionary territory.

- **Fed officials also sounded cautious** with Governor Michelle Bowman saying that she would like to gain greater confidence that progress in lowering inflation will continue as we consider making further adjustments. Similarly, Fed's Harker said that there are enough reasons for holding the policy rate steady. This morning, Fed Governor **Waller** said that they should **cut interest rates further** if inflation makes more progress, even amid policy uncertainty. Specifically, he said that we must **keep in mind that there is always a degree of uncertainty**. He even remarked that **he can certainly see rate cuts happening sooner than what markets are pricing in**.

- In EM-Asia, THB underperformed as Q4 GDP came in at 3.2% which significantly below expectations of 3.9%.

- In our view, it is not that the expected consumption boost from fiscal transfers did not come through as private consumption grew 3.4% with expansion across most categories. Disappointment though came from investment spending. Specifically, the 5.1% YoY growth in overall investment is of little cheer as it was held up by strong public investment expenditure while **private investment spending contracted 2.1%** on a year ago basis. An **envisaged Q4 restocking of inventories also did not come through** which reflects the soft business sentiments. As such, **most of the growth support** came from net exports, particularly **services exports which is also evident in the services sector's 3%-pts contribution to the 3.2% growth in Q4**.

Yields (Closed for Presidents Day Holiday)

Equities (Closed for Presidents Day Holiday)

FX (DX: +0.0%)

- JPY outperformed as GDP exceeded expectations to embolden BoJ rate hike bets. USD/JPY slipped to mid-151. AUD traded sideways around mid-63 cents ahead of RBA decision today. EUR remains pressured below 1.05. USD/SGD edged back higher to above 1.34.

DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(JP) GDP Annualized SA QoQ (4Q P)	2.8%	1.1%	1.7%
(JP) GDP Private Consumption QoQ (4Q F)	0.1%	0.3%	0.7%
(JP) GDP Deflator YoY (4Q P)	2.8%	2.8%	2.4%
(JP) Tertiary Industry Index MoM	0.1%	0.1%	-0.3%
(TH) GDP SA QoQ/YoY (4Q)	0.4%/3.2%	0.5%/3.8%	1.2%/3.0%
(SG) Non-oil Domestic Exports YoY (Jan)	-2.1%	0.6%	9.0%
(ID) Exports/Imports YoY (Jan)	4.7%/-2.7%	7.4%/9.9%	4.8%/11.1%
Today	Actual	Exp.	Prior
(AU) RBA Cash Rate Target		4.10%	4.35%
(GE) Zew Survey Expectations (Feb)		20.0	10.3
(US) Empire Manufacturing (Feb)		-2.0	-12.6

China: Supplying Confidence

- Government bond financing slowed markedly in January, totaling RMB693 billion, the slowest pace since last August. The fewer working days in January and the typical start-of-year slowdown in local government bond issuance, as officials await more guidance from **the National People's Congress in early March, contributed to this decline**. In our view, the government will probably set a higher fiscal deficit target of RMB5.2-5.5 trillion, or 3.8-4.0% of GDP for 2025, up from the previous cap of 3.0%, to provide more subsidies and tax incentives aimed at boosting domestic consumption.

- Furthermore, there are signs that Chinese policymakers are becoming more supportive of private enterprises, possibly in anticipation of escalating US-China tension. In a rare move, President Xi attended a meeting with top government officials and leading private entrepreneurs, and delivered a speech. Despite the government's commitment to boosting domestic consumption, personal income tax declined for the second consecutive year, down 1.7% YoY in 2024. In that regard, **reviving private business sentiment is seen as crucial for improving household consumption, as private enterprises account for about 80% of urban employment in China**.

RBA: Close Calls

- For the upcoming RBA meeting, **our base case call for a rate cut is an extremely close one which we put at 55% probability to reflect these fine margins**. Simply put, current market pricing of more than 80% chance of a rate cut appear too rich. Even as we had earlier acknowledge the RBA's inclination to ease, recent global geopolitically driven upside risk to inflation imply that this will not be an easy call for the RBA.

- Employment gains remained strong towards the end of 2024 and this may underpin inflationary pressures. Nonetheless, **the trimmed mean inflation from January dropping to 2.7% YoY which is within the RBA's target range in December had emboldened rate cut bets**. That said, as oil price led disinflation fades, the RBA will need a further mellowing of services inflation to ensure inflation's durability with their target range. Given the tough balancing act, should a rate cut take place, we expect Governor Bullock to exhibit a very cautious tone on forward guidance, saying that further cuts are far from being a done deal. Should the RBA hold rates, they will retain the optionality of upsized cuts in April if the economy falters or in the event that Australia's metals industries are not exempted from Trump's tariffs. Afterall, even though the mining industry is about 2% of the workforce, it takes an almost 10% share of GDP which would then trigger adverse multiplier effects on the economy. On the other end of considering smaller cuts, it is also not unforeseeable for the RBA to be pre-emptive to proceed with a small 10bps to bring the cash rate to 4.25% in a reflection of awkward balancing act.

- All in, even though current market pricing for cash rate futures appears rather rich in terms of rate cuts, AUD bulls at mid-63 cents may enjoy some temporal backstop but not much to run on given the already below trend growth and the pipeline downside risks, barring an about-turn from the RBA on their "confidence" on inflation coupled with an outrun of the jobs report on 20 Feb.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	151.51	151.44	▼0.53%	150.00 - 153.00
EURUSD	1.0484	1.0485	▼0.08%	1.0400 - 1.0540
GBPUSD	1.2625	1.2621	+0.31%	1.2300 - 1.2650
AUDUSD	0.6356	0.6355	+0.06%	0.6300 - 0.6400
DX	106.6	--	▼0.13%	106.0 - 107.5
USDCNY	7.2643	--	+0.10%	7.2300 - 7.3700
USDCNH	7.2663	7.2643	+0.12%	7.2400 - 7.3700
USDHKD	7.7805	7.7803	▼0.05%	7.7750 - 7.8100
USDSGD	1.3416	1.3414	+0.16%	1.3380 - 1.3550
USDKRW	1441	1442	+0.00%	1435 - 1460
USDTWD	32.71	--	▼0.21%	32.50 - 33.00
USDINR	86.88	--	+0.05%	86.50 - 88.00
USDIDR	16215	--	▼0.28%	16150 - 16480
USDMYR	4.434	4.434	▼0.05%	4.420 - 4.500
USDPHP	58.02	--	+0.32%	57.50 - 58.80
USDTHB	33.71	33.70	+0.28%	33.4 - 34.2
USDVND	25476	25480	+0.30%	25300 - 25700

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.261	4.477	0.0	0.0
JGB (JP)	0.805	1.387	1.1	3.2
Bunds (GE)	2.135	2.488	2.5	5.7
Gilts (UK)	4.199	4.526	0.5	2.7
AGB (AU)	3.857	4.452	4.0	3.5
SGS (SG)	2.732	2.826	-2.7	-2.4
CGB (CN)	1.372	1.688	1.7	4.3
KGB (KR)	2.875	2.732	0.0	0.0
SDL (IN)	6.693	6.610	0.0	1.1

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	158.85	158.77	▼0.61%
GBP/JPY	191.267	191.119	▼0.22%
JPY/SGD (100yen)	0.8855	0.8858	+0.69%
JPY/HKD (100yen)	5.1352	5.1377	+0.47%
CNH/JPY	20.84	20.848	▼0.70%
CNH/HKD	1.0711	1.0711	▼0.13%
EUR/GBP	0.8304	0.83075	▼0.39%
AUD/NZD	1.1081	1.1089	▼0.07%
EUR/CNH	7.6173	7.6163	▼0.02%
GBP/CNH	9.1735	9.1679	+0.40%

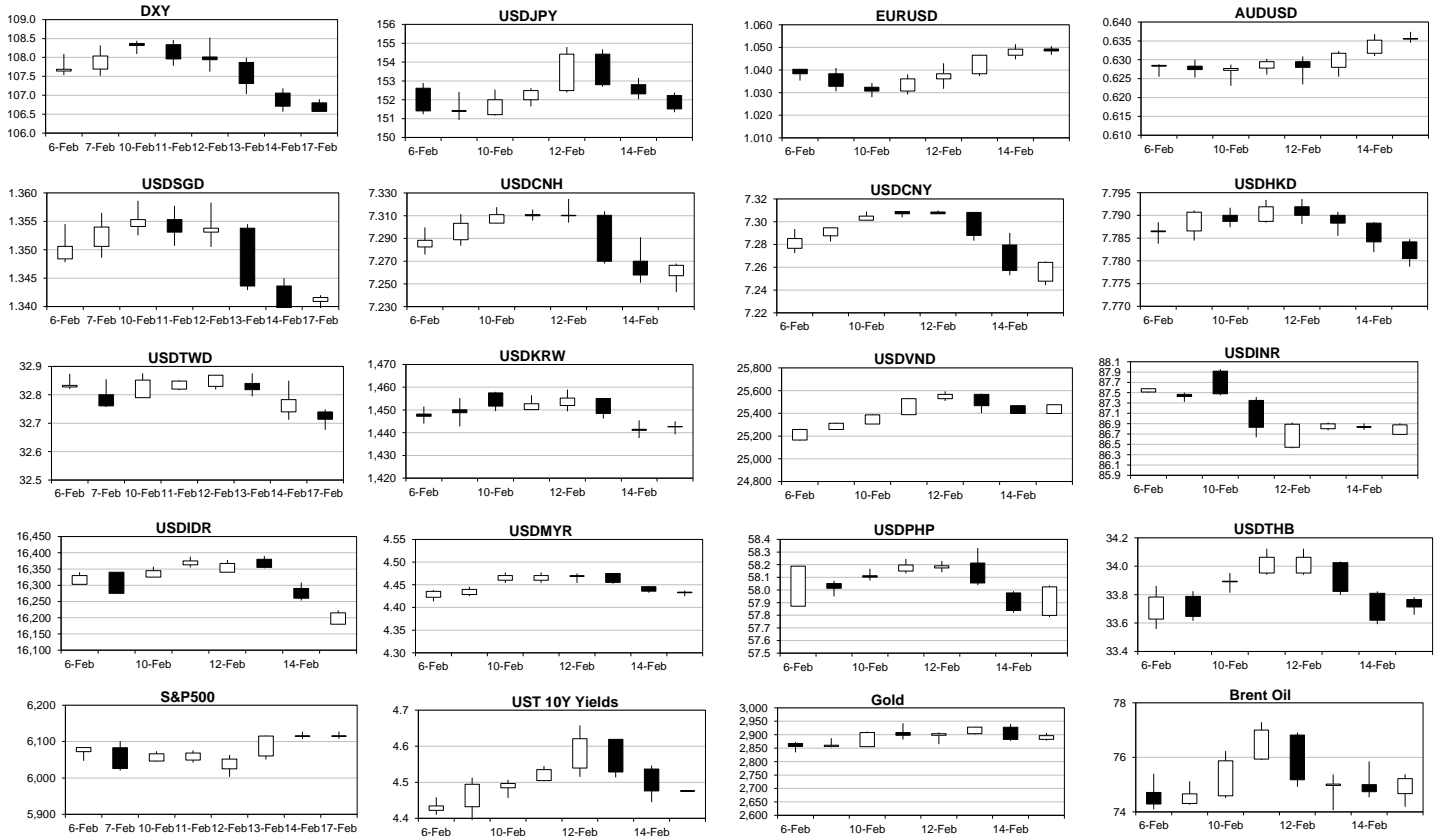
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6114.63	0.00	+0.00%
Nasdaq (US)	20026.77	0.00	+0.00%
DJIA (US)	44546.08	0.00	+0.00%
N225 (JP)	39174.25	24.82	+0.06%
STOXX50 (EU)	5519.83	26.43	+0.48%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4753.94	17.34	+0.37%
STI (SG)	3904.85	27.35	+0.71%
SHCOMP (CN)	3355.83	9.11	+0.27%
SZCOMP (CN)	2048.635	15.21	+0.75%
HSI (HK)	22616.23	-4.10	▼0.02%
SENSEX (IN)	75996.86	57.65	+0.08%
JSE (ID)	6830.882	192.42	+2.90%
KLSE (MY)	1582.76	-8.84	▼0.56%
PSE (PH)	5993.48	-67.85	▼1.12%
SET (TH)	1256.48	-15.62	▼1.23%
VNINDEX (VN)	1272.72	0.00	▼0.26%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,321.00	-169.43	▼1.79%
IRON ORE (CN)	106.46	-0.88	▼0.31%
GOLD	2,896.56	14.03	+0.49%
SILVER	32.34	0.00	+0.00%
OIL (BRENT)	75.22	0.48	+0.64%
OIL (WTI)	70.74	0.00	+0.00%
NATURAL GAS	3.73	0.23	+0.73%

CHARTS



RESEARCH TEAM

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

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