

Feb 20, 2025

Three Take-Aways

- 1) FOMC minutes signal policy rate hold amid caveats on economic conditions and federal job cuts may mean labour market conditionality may steal limelight sooner rather than later.
- 2) Amid a backdrop of caution, UST yields edged lower and equities closed slightly higher while USD retained traction.
- 3) SBV relenting on the reference rate making room for the upper limit and spot rates point to caution around depleting reserves.

MACRO THEME: Options and Conditions

- The FOMC minutes stated that "Participants indicated that, **provided the economy remained near maximum employment**, they would want to see further progress on inflation before making additional adjustments to the target range for the federal funds rate." While the main **messaging from the FOMC minutes** and officials such as Bostic who said that he is comfortable to take a pause **is one which alludes to a skip in March**, the conditionality around the **labour market is one which will continue to be very important for policy in Q2 and H2**.

- Within the minutes, even as the labour market conditions were seen as being solid, FOMC members point to the upcoming benchmark revision to the payroll growth estimates by the BLS to provide more clarity on labour market conditions.

- While these revisions provided an updated historical picture, **ongoing US federal headcount reductions will muddle the outlook further given complications around deferred compensation and layoff technicalities**.

- Coupled with geo-political tensions surrounding Ukraine with US President Trump calling Ukrainian President Zelenskiy a dictator, USTs recovered and yields edged lower in a backdrop of caution. Amid these close proximity woes surrounding Ukraine, EUR slipped towards the lower half of mid-1.04 as ECB's Panetta warned that the jobs market may be cracking as economic weakness is more persistent than they had expected as a long awaited consumption recovery did not materialise.

- Worries around the strong USD also emanated in EM-Asia as Bank Indonesia kept rates on hold and **Governor Warjiyo stressed on the need for stability of the IDR and revealed that they are intervening in the FX market almost everyday**.

Yields (2Y: -3.8bp; 10Y: -1.7bp; 30Y: +0.0bp)

- UST yields moved lower across the curve.

Equities (Nasdaq: +0.1%; S&P500: +0.2%; Dow: +0.2%)

- US equities closed marginally higher.

FX (DXY: +0.1%)

- USD resilience against most G10 despite softer UST yields point to geo-political caution and signal soft risk sentiments. JPY was a notable exception with the USD/JPY declining towards 151.

- The AUD was volatile sideways closing below mid-63 cents. Similarly, the USD/SGD was traded around 1.34-mid-1.34.

DATA/EVENTS

| Yesterday | Actual | Exp. | Prior |
|--|---------------|--------------|--------------|
| (CH) New/Used Home Prices MoM (Jan) | -0.07%/-0.34% | --/-- | -0.1%/0.3% |
| (AU) Wage Price Index QoQ (4Q) | 0.7% | 0.8% | 0.8% |
| (ID) Bank Indonesia Policy Rate | 5.75% | 5.75% | 5.75% |
| (PH) BoP Overall (Jan) | -\$4078m | -- | -\$1508m |
| (US) Housing Starts (Jan) | 1366k | 1390k | 1515k |
| (US) Building Permits (Jan) | 1483k | 1460k | 1482k |
| (JP) Trade Balance (Jan) | -¥2758.8b | -¥2103.8b | ¥132.5b |
| (JP) Core Machine Orders MoM (Dec) | -1.2% | 0.5% | 3.4% |
| Today | Actual | Exp. | Prior |
| (AU) Employment Change (Jan) | | 20k | 56.3k |
| (AU) Unemployment Rate (Jan) | | 4.1% | 4.0% |
| (CH) 1Yr/5Yr Loan Prime Rate | | 3.1%/3.6% | 3.1%/3.6% |
| (MY) Exports/Imports YoY (Jan) | | 5.0%/2.5% | 16.9%/11.9% |
| (EZ) Consumer Confidence (Feb P) | | -14.00 | -14.20 |
| (US) Phil. Fed Business Outlook (feb) | | 15.0% | 44.3% |
| (US) Initial Jobless Claims | | 215k | 213k |
| (US) Leading Index (Jan) | | -0.1% | -0.1% |

China: Stock and Flow

- New home prices declined 0.07% MoM in January while Used home prices drop 0.3% MoM. While the decline in housing prices appear to be turning more gradual, it remains hard to call a bottom amid the continued decrease in prices of existing homes given the **size of the existing stock and consequent wealth effects**. Used home prices also often serve as a confidence indicator given that they are subject to less intervention relative to new home which are subjected to price range approvals.

- Furthermore, from a city tier angle, new home prices in third tier cities continue to decline by 0.2% MoM and offsets increase in new home prices in first tier and second tier cities which rose by 0.1% MoM.

VND: Breathing Space Required

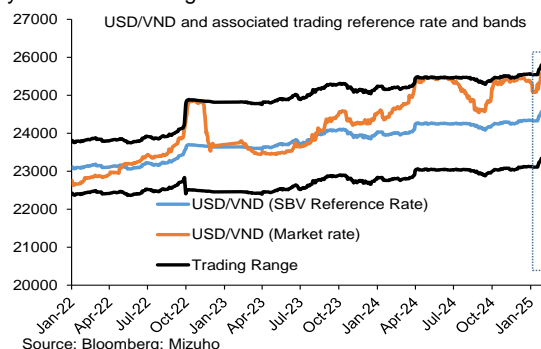
- On a YTD basis, the VND has depreciated just 0.2% against the Greenback. It has underperformed relative to the SGD, THB and MYR while faring better than the PHP, INR and IDR who have strong inclinations for monetary policy easing.

- Nonetheless, risk of depreciation pressures remain significant especially as FX reserves cover ratio at 2.4 months of imports as of October 2024 is below international benchmark and too low for comfort.

- This is also reflected in the SBV's actions so far in 2025 to raise their reference rates. Specifically, **nearly the entirety of the room between the spot rate and the upper limit was provided by the increase in the reference rate (See Figure below)**.

- Consequently, the desire not to approach the upper limit also reflects **caution not to excessively deplete precious forex reserves** which may serve a greater purpose in the event that tariff threats are implemented. On that note, while Vietnam's substantial trade surplus implies heightened risks of being in the crosshairs of tariffs, their negative tariff differential with the US (effective import tariff imposed on US goods is smaller than the rate imposed on Vietnamese imports into the US) perversely points to lesser ground for reciprocal tariffs.

- Meanwhile, Vietnam has raised their growth target for 2025 to a lofty 8% from 6.5-7% set earlier in late 2024. Given that the need for the SBV to keep policy rate hold to defend the VND, the target remains a high bar required a confluence of fiscal policy efficacy and external trade tailwinds which may elude considering elevated uncertainties.



FX OUTLOOK

| FX | Close (NY) | Open* | Daily %Δ | Forecast |
|--------|------------|--------|----------|-----------------|
| USDJPY | 151.47 | 151.24 | ▼0.39% | 150.00 - 153.00 |
| EURUSD | 1.0423 | 1.0420 | ▼0.22% | 1.0370 - 1.0500 |
| GBPUSD | 1.2586 | 1.2582 | ▼0.21% | 1.2520 - 1.2700 |
| AUDUSD | 0.6344 | 0.6340 | ▼0.14% | 0.6300 - 0.6400 |
| DXY | 107.2 | -- | +0.11% | 106.4 - 108.0 |
| USDCNY | 7.2788 | -- | +0.05% | 7.2300 - 7.3200 |
| USDCNH | 7.2842 | 7.2854 | +0.11% | 7.2300 - 7.3200 |
| USDHKD | 7.7773 | 7.7780 | +0.03% | 7.7700 - 7.7900 |
| USDSGD | 1.3429 | 1.3430 | +0.04% | 1.3360 - 1.3500 |
| USDKRW | 1442 | 1442 | +0.00% | 1430 - 1450 |
| USDTWD | 32.76 | -- | ▼0.04% | 32.50 - 33.00 |
| USDINR | 86.95 | -- | +0.00% | 86.50 - 87.60 |
| USDIR | 16330 | -- | +0.34% | 16200 - 16400 |
| USDMYR | 4.443 | 4.445 | ▼0.05% | 4.420 - 4.480 |
| USDPHP | 58.09 | -- | ▼0.12% | 57.80 - 58.60 |
| USDTHB | 33.69 | 33.74 | +0.00% | 33.4 - 34.0 |
| USDVND | 25520 | 25520 | ▼0.03% | 25400 - 25700 |

*Open is as at 8am HKT/SGT.

MARKET MOVES

| Bond Yields | 2Y Close | 10Y Close | 2Y Δ (bps) | 10Y Δ (bps) |
|-------------|----------|-----------|------------|-------------|
| UST (US) | 4.270 | 4.534 | -3.8 | -1.7 |
| JGB (JP) | 0.817 | 1.428 | -0.2 | 0.3 |
| Bunds (GE) | 2.172 | 2.556 | 4.5 | 6.4 |
| Gilts (UK) | 4.272 | 4.610 | 3.5 | 5.3 |
| AGB (AU) | 3.918 | 4.525 | 0.7 | 1.9 |
| SGS (SG) | 2.766 | 2.892 | 2.7 | 3.5 |
| CGB (CN) | 1.388 | 1.684 | -0.7 | -2.1 |
| KGB (KR) | 2.884 | 2.706 | 0.0 | -3.8 |
| SDL (IN) | 6.686 | 6.618 | 0.2 | -0.2 |

| Cross FX | Close (NY) | Open* | Daily %Δ |
|------------------|------------|---------|----------|
| EUR/JPY | 157.88 | 157.59 | ▼0.60% |
| GBP/JPY | 190.646 | 190.276 | ▼0.60% |
| JPY/SGD (100yen) | 0.8865 | 0.8879 | +0.43% |
| JPY/HKD (100yen) | 5.1345 | 5.1429 | +0.42% |
| CNH/JPY | 20.833 | 20.782 | ▼0.27% |
| CNH/HKD | 1.0686 | 1.0686 | +0.00% |
| EUR/GBP | 0.82809 | 0.8282 | ▼0.02% |
| AUD/NZD | 1.1121 | 1.1123 | ▼0.15% |
| EUR/CNH | 7.5922 | 7.5914 | ▼0.10% |
| GBP/CNH | 9.1678 | 9.1661 | ▼0.11% |

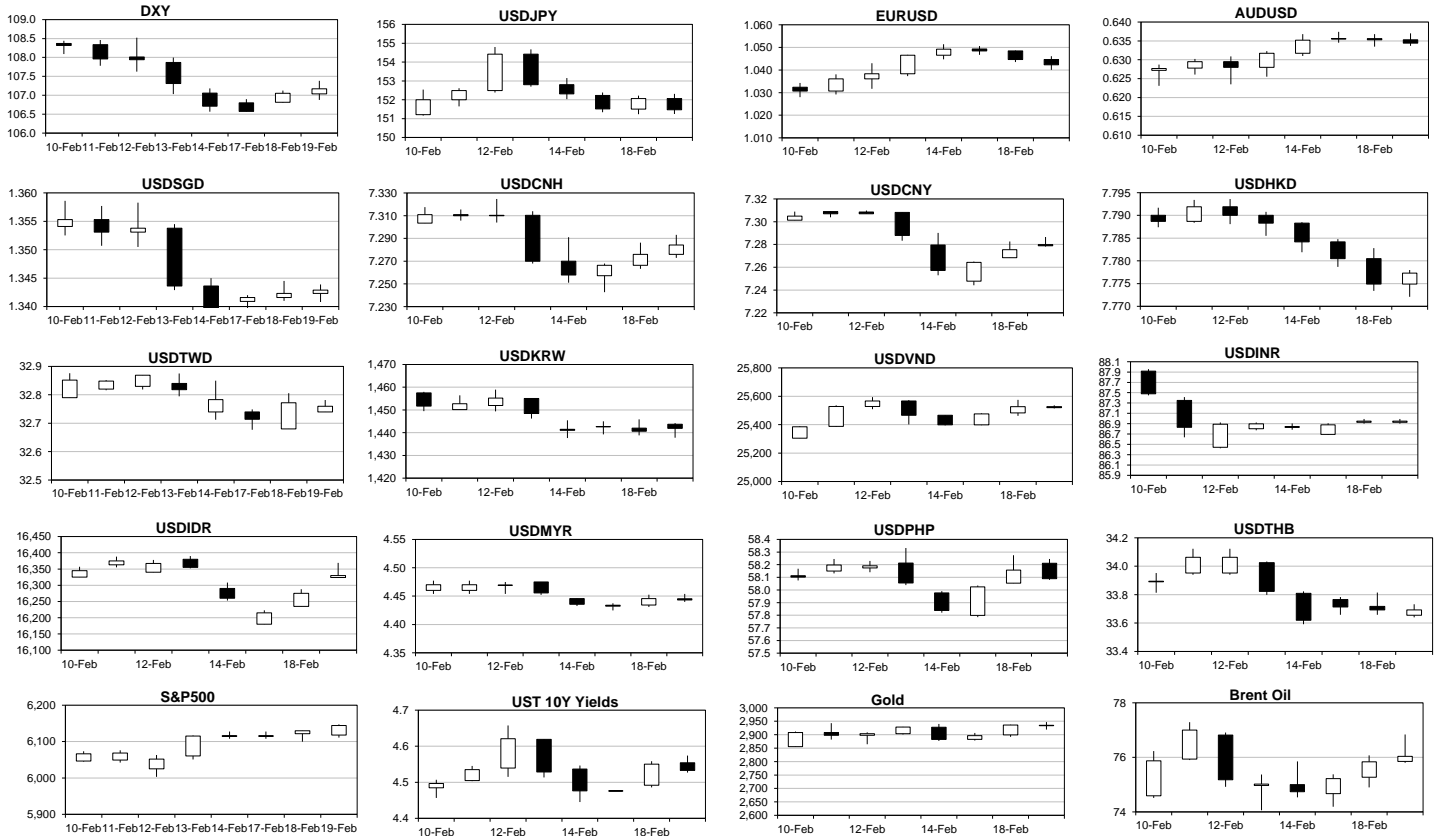
*Open is as at 8am HKT/SGT.

| G3 Equities | Close | Net Chg | Daily %Δ |
|--------------|----------|---------|----------|
| S&P500 (US) | 6144.15 | 14.57 | +0.24% |
| Nasdaq (US) | 20056.25 | 14.99 | +0.07% |
| DJIA (US) | 44627.59 | 71.25 | +0.16% |
| N225 (JP) | 39164.61 | -105.79 | ▼0.27% |
| STOXX50 (EU) | 5461.17 | -72.67 | ▼1.31% |

| Asia Equities | Close | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| ASX (AU) | 4721.15 | -30.34 | ▼0.64% |
| STI (SG) | 3934.04 | 8.48 | +0.22% |
| SHCOMP (CN) | 3351.539 | 27.05 | +0.81% |
| SZCOMP (CN) | 2045.546 | 38.21 | +1.90% |
| HSI (HK) | 22944.24 | -32.57 | ▼0.14% |
| SENSEX (IN) | 75939.18 | -28.21 | ▼0.04% |
| JSE (ID) | 6794.868 | -78.69 | ▼1.14% |
| KLSE (MY) | 1580.88 | -3.96 | ▼0.25% |
| PSE (PH) | 6119.88 | 24.92 | +0.41% |
| SET (TH) | 1262.27 | 4.79 | +0.38% |
| VNINDEX (VN) | 1288.56 | 0.01 | +0.82% |

| Commodity | Close | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| COPPER (LME) | 9,425.91 | 24.76 | +0.26% |
| IRON ORE (CN) | 106.90 | -0.91 | +0.00% |
| GOLD | 2,933.39 | -2.63 | ▼0.09% |
| SILVER | 32.70 | 0.27 | +6.81% |
| OIL (BRENT) | 76.04 | 0.20 | +0.26% |
| OIL (WTI) | 72.25 | 0.40 | +0.56% |
| NATURAL GAS | 4.28 | -0.18 | ▼0.56% |

CHARTS



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