

Feb 21, 2025

Three Take-Aways

1) US equities fell amid mixed US data and uncertainties over resiliency of US consumer exceptionalism.

2) UST yield curve flattened slightly amid Bessent's comments that the Treasury was unlikely to boost share of longer-term Treasuries.

3) Indonesia's narrowing C/A deficit in Q4 does not turn the tide for wider deficit outlook in 2025, adding headwinds for the IDR amid fiscal woes and hints of government-central bank tensions.

MACRO THEME: Lacking Conviction

- The many variabilities on the outlook of cross-border trade, government policies and attendant spillovers to growth/inflation mean that caution still rules the roost.

- Uncertainties was still unsurprisingly, also the central theme in FedSpeak. Fed Musalem said Fed policy should remain "modestly restrictive" until it's clear inflation is on track to the central bank's 2% target, as there were increased risks that progress may stall or even reverse, noting that upcoming changes in government policy could have a material impact on the path of the economy.

- In a similar vein, Fed Goolsbee expressed some nervousness about anything that looks like supply shock and noted it was uncertain whether tariffs would raise prices.

- Meanwhile, Fed Bostic noted the strong labour market and resilient GDP, but uncertainty on the inflationary effects of government policies would mean less confidence on when the next step is. Barring any shocks, Bostic's baseline scenario was 2 cuts in 2025.

- Risk sentiments also took a dent, with US equities lower, as disappointing forecast from Walmart, the world's largest retailer, added concerns about the durability and strength of US consumer resilience. US data printed mixed.

Yields (2Y: +0.1bp; 10Y: -2.8bp; 30Y: -1.9bp)

- The UST yield curve flattened slightly amid Bessent's comments that any move to boost the share of longer-term Treasuries in government debt issuance is "some ways off", given current hurdles that include elevated inflation and the Fed's quantitative tightening program.

Equities (Nasdaq: -0.5%; S&P500: -0.4%; Dow: -1.0%)

- US equities fell, with financials, consumer discretionary and consumer staples counters leading the losses.

- In contrast, the Nasdaq Golden Dragon Index rose +1.6% on better-than-expected corporate earnings and Trump's less hostile tone towards China. Specifically, Trump said that it would be possible to reach a fresh trade deal with China.

FX (DXY: -0.8%)

- The USD weakened against G10 currencies.

- JPY led the gains, with USD/JPY moving below 150, on speculation

that BoJ will hike rates sooner rather than later amid BoJ Board Member Takata's comments that it's important to continue considering gradual rate hikes.

- AUD also outperformed, moving to 64 cents, on hopes of better outcomes in US-China trade negotiations. EUR moved above mid-1.04 while in Asia, SGD was also supported by the prospect of a further dial down in trade tensions, dipping below mid-1.33 levels.

China: Unchanged LPRS

- Chinese banks left the 1Y and 5Y LPRs unchanged at 3.1% and 3.6%, respectively, as expected. Maintaining these rates was not surprising as the PBoC has refrained from cutting the policy rate further despite a shift to moderately loose monetary policy. RMB depreciation pressures imply that the rate cuts remain inconvenient at this juncture. In addition, recent global and domestic developments pose mixed implications for PBoC's monetary policy. The US' watered-down 10% tariffs on Chinese goods, with room for trade negotiation, suggested that the trade war shocks may not be as bad as initially thought, reducing the urgency for immediate rate cuts.

- Notwithstanding this, the RMB recovery to below the 7.3 handle and rebound in CGB yields should provide more flexibility for rate cuts, albeit the timing of which is rather uncertain. We also await announcement of new stimulus package at the National People's Congress in early March.

Indonesia Current Account Deficit: More Headwinds for the IDR

- Indonesia current account deficit for Q4 narrowed to 0.3% of GDP (Q3: 0.6%), driven by a larger good surplus which was supported by higher palm oil prices amid poor harvests in Malaysia. The Q4 figure brings current account deficit for 2024 to 0.6% of GDP (2023: 0.1% of GDP), at the upper-half of BI's 0.1-0.9% range.

- Looking ahead, Indonesia's current account deficit is expected to continue widening in 2025. BI estimates C/A deficit at 0.5-1.3% of GDP in 2025 (2016-2019 average was 2.3% of GDP). This is because elevated palm oil prices is likely temporal due to poor harvest in Malaysia on adverse weather conditions. While higher palm oil prices could continue into Q1 on persistent bad weather conditions in Malaysia and higher demand going into/during Ramadan, demand for the whole year is unlikely to rise by much amid growth woes in China and Europe. In addition, bumper harvests for soy (a competing crop for food and fuel) would likely put a lid on price increases.

- All said, the widening of current account deficit presents further headwinds for the IDR, which have been battling fiscal woes and newly-added uncertainty over central bank independence. Indonesia's path to fiscal consolidation looks increasingly fraught in recent months following the watered down VAT tax, the launch of the free lunch programme and public protests on the budget cuts. To make matters worse, in recent days, news reports have surfaced that some members of Indonesia's parliament plan to propose the president remove the central bank governor because they think he was not properly backing the government's policy. Although the article did not specify which policy, any sign of an erosion of central bank independence could still add pressure to the IDR. That said, this risk remains a rather remote one.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	149.64	149.45	▼1.21%	147.50 - 150.50
EURUSD	1.0501	1.0500	+0.75%	1.0450 - 1.0600
GBPUSD	1.2669	1.2670	+0.66%	1.2600 - 1.2800
AUDUSD	0.6400	0.6402	+0.88%	0.6350 - 0.6480
DXY	106.4	--	▼0.75%	105.6 - 107.2
USDCNY	7.2429	--	▼0.49%	7.2100 - 7.2900
USDCNH	7.2352	7.2418	▼0.67%	7.2000 - 7.2900
USDHKD	7.7765	7.7761	▼0.01%	7.7600 - 7.7900
USDSGD	1.3335	1.3336	▼0.70%	1.3240 - 1.3450
USDKRW	1434	1435	+0.00%	1425 - 1445
USDTWD	32.80	--	+0.12%	32.60 - 33.00
USDINR	86.67	--	▼0.32%	86.30 - 87.00
USDIDR	16330	--	+0.00%	16200 - 16500
USDMYR	4.430	4.418	▼0.31%	4.370 - 4.450
USDPHP	57.93	--	▼0.28%	57.60 - 58.30
USDTHB	33.66	33.54	▼0.10%	33.3 - 33.8
USDVND	25526	25527	+0.02%	25400 - 25650

*Open is as at 8am HKT/SGT.

DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(AU) Employment Change (Jan)	44.0k	20.0k	60.0k
(AU) Unemployment Rate (Jan)	4.1%	4.1%	4.0%
(CH) 1Yr/5Yr Loan Prime Rate	3.1%/3.6%	3.1%/3.6%	3.1%/3.6%
(ID) C/A Balance (4Q)	-\$1145m	-\$1937m	-\$2008m
(MY) Exports/Imports YoY (Jan)	0.3%/6.2%	5.0%/2.5%	16.9%/11.9%
(TW) Export Orders YoY (Jan)	-3.0%	2.7%	20.8%
(EZ) Consumer Confidence (Feb P)	-13.6	-14.0	-14.2
(US) Phil. Fed Business Outlook (feb)	18.1	14.3	44.3
(US) Initial Jobless Claims	219k	215k	214k
(US) Leading Index (Jan)	-0.3%	-0.1%	0.1%
Today	Actual	Exp.	Prior
(MY) CPI YoY (Jan)		1.8%	1.7%
(JP) Mfg/Services PMI (Feb P)		--	48.7/53.0
(JP)Natl CPI/Ex Fresh Food,Energy YoY (Jan)	4.0%/2.5%	4.0%/2.5%	3.6%/2.4%
(EZ) Mfg/Services PMI (Feb P0)		47.0/51.5	46.6/51.3
(US) UoM Sentiment (Feb F)		67.8	67.8
(US) UoM 1Y/5-10Y Inflation (Feb F)		4.3%/3.3%	4.3%/3.3%
(US) Mfg/Services PMI (Feb P)		51.3/53.0	51.2/52.9

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.271	4.506	0.1	-2.8
JGB (JP)	0.821	1.439	0.4	1.1
Bunds (GE)	2.148	2.532	-2.5	-2.4
Gilts (UK)	4.261	4.607	-1.1	-0.3
AGB (AU)	3.926	4.525	0.8	0.0
SGS (SG)	2.742	2.875	-2.3	-1.7
CGB (CN)	1.412	1.709	2.4	2.5
KGB (KR)	2.897	2.697	-1.9	0.1
SDL (IN)	6.704	6.615	-0.4	0.4

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	157.16	156.93	▼0.46%
GBP/JPY	189.566	189.353	▼0.57%
JPY/SGD (100yen)	0.8911	0.8923	+0.52%
JPY/HKD (100yen)	5.1971	5.2031	+1.22%
CNH/JPY	20.661	20.632	▼0.83%
CNH/HKD	1.0736	1.0734	+0.47%
EUR/GBP	0.82889	0.82873	+0.10%
AUD/NZD	1.1105	1.1108	▼0.14%
EUR/CNH	7.5981	7.6039	+0.08%
GBP/CNH	9.1682	9.1754	+0.00%

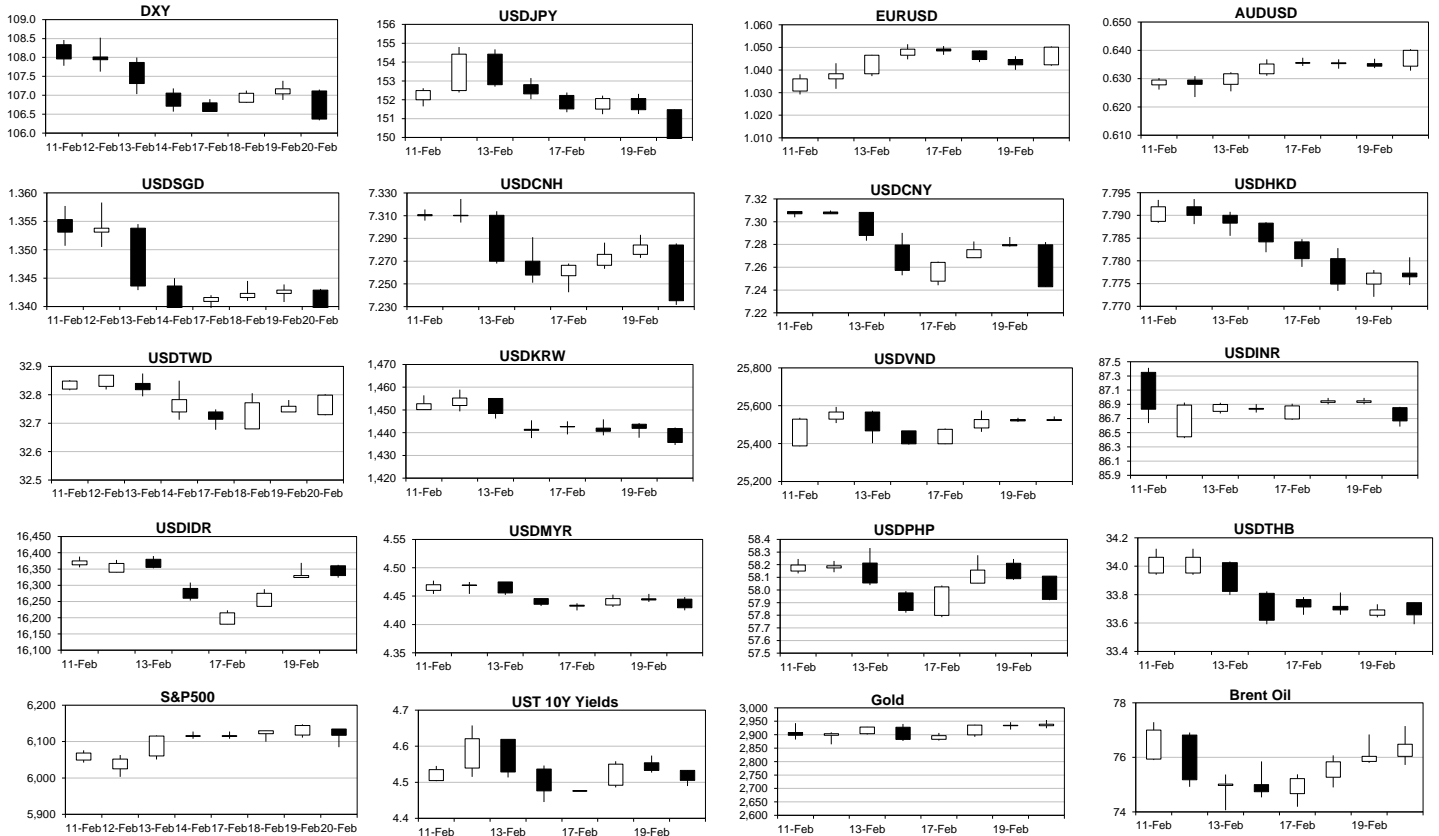
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6117.52	-26.63	▼0.43%
Nasdaq (US)	19962.36	-93.89	▼0.47%
DJIA (US)	44176.65	-450.94	▼1.01%
N225 (JP)	38678.04	-486.57	▼1.24%
STOXX50 (EU)	5461.03	-0.14	▼0.00%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4694.99	-26.16	▼0.55%
STI (SG)	3927.51	-6.53	▼0.17%
SHCOMP (CN)	3350.783	-0.76	▼0.02%
SZCOMP (CN)	2056.724	11.18	+0.55%
HSI (HK)	22576.98	-367.26	▼1.60%
SENSEX (IN)	75735.96	-203.22	▼0.27%
JSE (ID)	6788.042	-6.83	▼0.10%
KLSE (MY)	1577.67	-3.21	▼0.20%
PSE (PH)	6066.63	-53.25	▼0.87%
SET (TH)	1245.61	-16.66	▼1.32%
VNINDEX (VN)	1292.98	0.00	+0.34%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,532.10	106.19	+1.13%
IRON ORE (CN)	107.65	0.66	+0.70%
GOLD	2,938.98	5.59	+0.19%
SILVER	32.96	-0.13	▼2.99%
OIL (BRENT)	76.48	0.44	+0.58%
OIL (WTI)	72.57	0.32	+0.44%
NATURAL GAS	4.15	0.26	+0.81%

CHARTS



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