

Feb 24, 2025

Three Take-Aways

1) US equities sold off and UST yields fell on signs of a slowing US economy. Brent Crude fell -2.7% amid demand woes and higher inventories.

2) In contrast, Chinese equities closed higher on better corporate earnings, prospects of better US-China trade deal and a more conciliatory tone from Chinese authorities.

3) BoK primed to cut rates on contained inflationary pressures, weak growth, slower growth in house prices and relative KRW stability.

MACRO THEME: Downbeat

- Risk sentiments took a beating on signs of a slowing US economy. UoM sentiment index was revised lower, existing home sales fell for the first time since September, while services PMI disappointed, signalling a contraction against expectations of an expansion. The resiliency of US consumer spending was likely in focus, especially as the PMI print came a day after Walmart's downbeat forecast.

- While consumers' long-term inflation expectations were revised higher, this was downplayed by Fed Goolsbee, who commented that sentiment not as good of a predictor as in the past, and a few more months of data would be required for that to count. Based on FFR futures, odds of the first hike moved forward from Sep to Jul.

- Brent Crude slumped -2.7% on demand woes and higher inventories. US winter demand looks to ease as the polar vortex nears its end. EIA also reported a prior day ago that commercial crude inventories rose by a more than expected 4.6m bpd the prior week.

Yields (2Y: -7.1bp; 10Y: -7.4bp; 30Y: -6.9bp)

- UST yields fell across the curve.

Equities (Nasdaq: -2.2%; S&P500: -1.7%; Dow: -1.7%)

- US equities sold-off.

FX (DXY: +0.2%)

- The USD traded mixed against the G10 currencies. The JPY initially weakened against the greenback on BoJ Governor Ueda's warnings that BoJ can intervene in the bond markets to quell a surge in yields amid concerns from the Prime Minister and Finance Minister on the potential impact of higher borrowing costs, but subsequently pared all its losses and even led gains against the greenback as US data overnight moved forward Fed cut expectations. USD/JPY closed at around 149 handle.

- EUR performed in the middle of the pack, hovering above mid-1.04; while AUD led losses amid Brent Crude's decline, moving to mid-63 cents. Elsewhere, USD/SGD was broadly stable around mid-1.33 levels.

China: Durable Rallies?

- Chinese equities rallied (Hang Seng: +4.0%; CSI300: +1.3%) amid upbeat corporate earnings and against a backdrop of Chinese authorities' more conciliatory tone towards the tech sector and

prospects of a better US-China trade deal. The positive sentiment continued in offshore markets during NY session, with Nasdaq Golden Dragon extending its climb by +1.7%.

- Nonetheless, over the weekend, reports surfaced that the Trump administration told Mexican officials that they should put duties on Chinese imports as part of their efforts to avoid US tariffs.

Bank of Korea: Cutting Through Noise

- For BoK's meeting tomorrow, **we retain our expectations for a rate cut even** as Governor Rhee highlighted that it is far from a done deal. **Since the surprise rate hold in January**, the economic situation has largely evolved in line with expectations.

- First, **inflation remain contained with core inflation still below 2%** despite an uptick in January's print as it was largely on account of Lunar New Year and graduation seasonal effects and one off adjustments on healthcare costs. This falls well within the BoK's expectation stated in their previous statement that inflation is not expected to change much from its stable trend.

- Second, **growth remains weak with Q4 GDP expanding just 0.1% QoQ** on a seasonally adjusted (SA) basis with private consumption growth slowing to 0.3% QoQ SA from 0.5% QoQ SA. The manufacturing sector grew just 0.1% QoQ SA while services were more supportive with a 0.3% QoQ expansion. Construction sector contracted for the third straight quarter, -3.5% QoQ SA in Q4.

- Third, **Seoul housing price growth has clearly slowed** with the mid-Feb to mid-Jan growth at just 0.06%, significantly below the average pace of a 0.3% MoM growth in Q4 2024. Reflecting so, growth of mortgage loans have also clearly tapered off as macro-prudential measures weighed. Admittedly, winter effects may have play some role in the slower activity.

- Given these indicators, the **balance of risks leans towards a rate cut** especially if we consider that the **need to support growth was already reflected in January** by the BoK's decision to expand their Intermediated Lending Support Facility for the self employed and SMEs even as they held rates.

- Nonetheless, policy has always been a subjective call as there was **already a dissenter at the previous meeting**. This decision will be an even tighter one with **Governor Rhee appearing to lean towards fiscal policy** rather than relying on monetary policy accommodation.

- The **other crucial component is undoubtedly the KRW**. KRW has appreciated around 0.9% with a middle of the pack performance. It may be tempting to suggest that USD/KRW at around 1450 level the BoK may hold. At this juncture, it is critical to note that Governor Rhee actually said that **"it depends on the environment. If the exchange rate is depreciating rapidly, you don't want to put oil on fire**. Down the road, we will look at the exchange rate but we are not targeting a specific level."

- Therefore, even as USD/KRW levels look unwelcoming, the **relative KRW stability (+0.9%) since Jan compared to the 4.4% decline** at the Jan meeting from the previous Nov 24 meeting **could be a sufficient backdrop for the BoK to proceed with another rate cut**.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	149.27	149.35	▼0.25%	147.50 - 150.50
EURUSD	1.0458	1.0474	▼0.41%	1.0380 - 1.0580
GBPUSD	1.2632	1.2650	▼0.29%	1.2550 - 1.2780
AUDUSD	0.6357	0.6369	▼0.67%	0.6300 - 0.6430
DXY	106.6	--	+0.23%	106.0 - 107.0
USDCNY	7.2523	--	+0.13%	7.2100 - 7.2900
USDCNH	7.2550	7.2534	+0.27%	7.2000 - 7.2900
USDHKD	7.7703	7.7700	▼0.08%	7.7500 - 7.7900
USDSGD	1.3366	1.3358	+0.23%	1.3240 - 1.3450
USDKRW	1436	1434	+0.00%	1425 - 1445
USDTWD	32.76	--	▼0.12%	32.50 - 33.00
USDINR	86.71	--	+0.05%	86.30 - 87.00
USDIDR	16305	--	▼0.15%	16150 - 16450
USDMYR	4.418	4.418	▼0.25%	4.380 - 4.450
USDPHP	57.95	--	+0.04%	57.60 - 58.30
USDTHB	33.61	33.56	▼0.14%	33.3 - 33.8
USDVND	25520	25520	▼0.02%	25400 - 25650

*Open is as at 8am HKT/SGT.

DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(MY) CPI YoY (Jan)	1.7%	1.8%	1.7%
(JP) Mfg/Services PMI (Feb P)	48.9/53.1	--	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)	47.3/50.7	47.0/51.5	46.6/51.3
(US) UoM Sentiment (Feb F)	64.7	67.8	67.8
(US) UoM 1Y/5-10Y Inflation (Feb F)	4.3%/3.5%	4.3%/3.3%	4.3%/3.3%
(US) Mfg/Services PMI (Feb P)	51.6/49.7	51.3/53.0	51.2/52.9
(US) Existing Home Sales (Jan)	4.08m	4.13m	4.29m
Today	Actual	Exp.	Prior
(SG) CPI/Core YoY (Jan)		2.3%/1.5%	1.6%/1.8%
(KR) Retail Sales YoY (Jan)		--	8.9%
(US) Dallas Fed Mfg Activity (Feb)		6.4	14.1
(US) Chicago Fed Nat Activity Index (Jan)		-0.1	0.2
(EZ) CPI/Core YoY (Jan F)		2.5%/2.7%	2.4%/2.7%
(GE) IFO Current Assessment (Feb)		86.3	86.1
(GE) IFO Business Climate (Feb)		85.8	85.1

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.200	4.432	-7.1	-7.4
JGB (JP)	0.811	1.423	-1.0	-1.6
Bunds (GE)	2.102	2.469	-4.6	-6.3
Gilts (UK)	4.225	4.571	-3.6	-3.6
AGB (AU)	3.904	4.512	-2.2	-1.3
SGS (SG)	2.737	2.869	0.2	-0.6
CGB (CN)	1.448	1.750	3.7	4.1
KGB (KR)	2.876	2.683	-6.9	-7.1
SDL (IN)	6.706	6.614	-1.7	-1.0

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	156.15	156.42	▼0.64%
GBP/JPY	188.62	188.914	▼0.50%
JPY/SGD (100yen)	0.8952	0.8944	+0.46%
JPY/HKD (100yen)	5.2047	5.2027	+0.15%
CNH/JPY	20.564	20.594	▼0.47%
CNH/HKD	1.0713	1.0714	▼0.21%
EUR/GBP	0.82789	0.82802	▼0.12%
AUD/NZD	1.1071	1.1077	▼0.31%
EUR/CNH	7.5876	7.5972	▼0.14%
GBP/CNH	9.1649	9.1752	▼0.04%

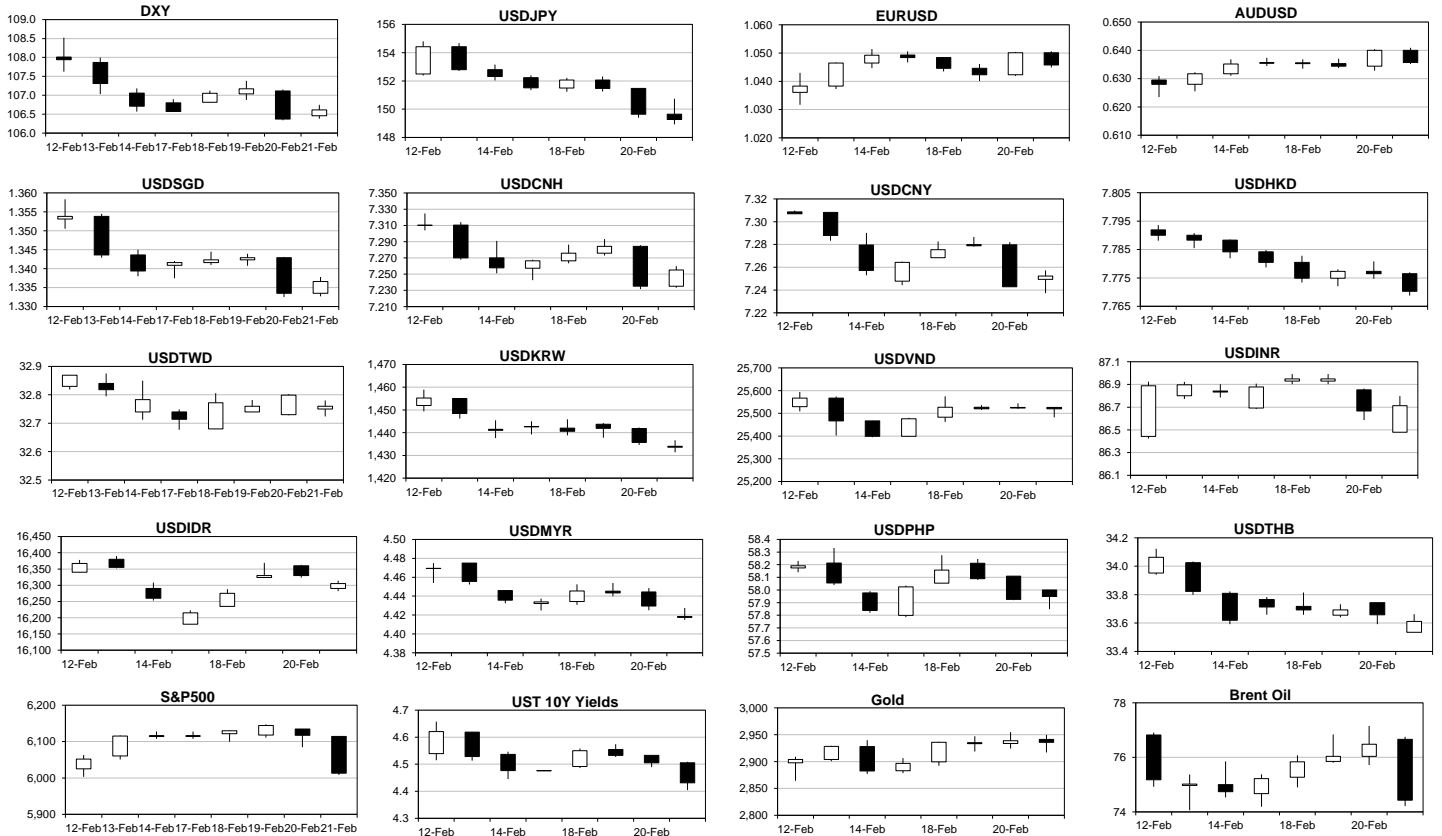
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6013.13	-104.39	▼1.71%
Nasdaq (US)	19524.01	-438.35	▼2.20%
DJIA (US)	43428.02	-748.63	▼1.69%
N225 (JP)	38776.94	98.90	+0.26%
STOXX50 (EU)	5474.85	13.82	+0.25%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4693.35	-1.64	▼0.03%
STI (SG)	3929.94	2.43	+0.06%
SHCOMP (CN)	3379.113	28.33	+0.85%
SZCOMP (CN)	2088.815	32.09	+1.56%
HSI (HK)	23477.92	900.94	+3.99%
SENSEX (IN)	75311.06	-424.90	▼0.56%
JSE (ID)	6803.001	14.96	+0.22%
KLSE (MY)	1591.03	13.36	+0.85%
PSE (PH)	6098.04	31.41	+0.52%
SET (TH)	1246.21	0.60	+0.05%
VNINDEX (VN)	1296.75	0.00	+0.29%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,518.84	-13.26	▼0.14%
IRON ORE (CN)	107.60	0.81	▼0.05%
GOLD	2,936.05	-2.93	▼0.10%
SILVER	32.46	0.08	+1.97%
OIL (BRENT)	74.43	-2.05	▼2.68%
OIL (WTI)	70.40	-2.17	▼2.99%
NATURAL GAS	4.23	-0.50	▼1.53%

CHARTS



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