

Dec 04, 2024

Three Take-Aways

- 1) **Korea's short lived martial law engenders risks of sticky risk premium even as the partial recovery after the initial shock is to be expected.**
- 2) **Drawn-out budget process may face more delays risking economic drags.**
- 3) **UST yields rose on the long end alongside higher oil prices and job openings.**

MACRO THEME: Political Upheavals

- Korea's fleeting, but nonetheless upsetting, declaration of martial law dented all things in the KRW asset space.
- Meanwhile, a no confidence vote for PM Barnier hangs over the French political stage, underpinning OAT spreads and suppressing the EUR (at sub-1.06).
- The partial recovery in KRW assets this morning is to be expected. But somewhat more lasting risk premium cannot be ruled out.
- Especially as pre-existing domestic impediments and global threats conspire. This is likely to heighten volatility in asset markets.

A certain degree of uncertainty premium associated with hard-to-time/quantity may also creep in.

Yields (2Y: -0.1bp; 10Y: +3.3bp, 30Y: +4.0bp)

- Long end yields rose as oil prices headed higher and job opening rose.

Equities (Nasdaq: +0.4%; S&P: +0.1%; Dow: -0.2%)

- US equities continue their mixed performance.

FX (DXY: -0.1%)

- NOK managed modest gains alongside higher oil prices. USD/JPY remains pressured below 150. AUD hovering just below 65 cents.

Korea's Short-Lived Martial Law Jolt: But Will Risk Premium Stick?

- **President Yoon's shocking, albeit short-lived, declaration of martial law** raises uncomfortable **questions of political risk premium on KRW assets.**

Martial Law Decree Ditched: To be sure, the *martial law attempt has been promptly defused* by resounding Parliamentary opposition, which forced Yoon to walk back on the martial law decree.

Backfired Politically: What's more, Yoon's **attempt to seize power and tame opposition by means of martial law** has *truly back-fired*. In fact, **Yoon's chances of political survival are dismal**. It is merely a **matter of time before he is ousted with fresh Presidential elections** (*likely in H1 2025*).

Nonetheless, Korea's Risk Premium Not Unscathed: *But* despite an arguably efficient political mechanism to safeguard democracy and free markets, **Korea's perceived risk premium may not be unscathed.**

DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(KR) CPI/Core YoY (Nov)	1.5%/1.9%	1.7%/1.9%	1.3%/1.8%
(AU) Current Account Balance (3Q)	-\$14.1b	-\$10.9b	-\$16.4b
(US) JOLTS Job Openings (Oct)	7744k	7519k	7443k

Today

(CH) Caixin China PMI Services (Nov)		52.5	52.0
(AU) GDP YoY/SA QoQ (3Q)	0.8%/0.3%	1.1%/0.5%	1.0%/0.2%
(US) ADP Employment Change (Nov)		165k	233k
(US) Durable Good Orders (Oct F)		--	0.0
(US) ISM Services Index/Prices Paid (Nov)		55.5/--	56.0/58.1
(US) Factory Orders (Oct)		0.3%	-0.5%
(EZ) PPI YoY (Oct)		--	-3.4%

(US) Fed Releases Beige Book

Deterrence Welcome: Admittedly, the **failed attempt at martial law** may be of **some deterrence** for any future President to invoke it with impunity.

Economic Interests a Check: Moreover, and crucially, **overwhelming economic interests** of the private sector will act as a **consistent and dynamic check** against **engineered political upheavals**.

But Political Risks Linger: Nonetheless, worries of **underlying political fractures/factions** and the *resultant impediments to efficacious policy-making* remains a *bugbear*, with **attendant political risk premium**.

Pre-Existing Economic Challenges: What's more, **pre-existing economic challenges**, from *housing market risks, relatively lagging semiconductor performance and fiscal headwinds*. continue to be stress points for policy and politics.

Exacerbated by Trump 2.0 Tariff Threats: Worse, with impending **Trump 2.0 tariffs**, Korea risks greater *economic blowback from collateral damage to its key upstream position* and bi-lateral US trade imbalance.

Reflexivity & Stickier Risk Premium: And to George **Soros'** famous point about **reflexivity**, risks often don't work in isolation, instead feeding into, and off, each other. **& Stickier Risk Premium:** And this **renders risk premium downwardly sticky** for some time.

Fiscal Implications: The risk is that an already **drawn-out budget process** (that was crimping the President's discretionary funds) **may be further delayed**. This may *inevitably delay pass-through of fiscal buffer* for the economy (GDP).

Bank of Korea: While the **BoK** has (rightly) stepped in to be the **liquidity provider of last resort**, its underlying policy dilemma is further accentuated. The **undermined KRW raises the bar for rapid/imminent rate cuts** (although the direction of travel is down for rates).

Equities: "Korea Discount" Could Stick

In the equities space, this **attempt at martial law retards attempts to diminish the Korea risk premium**. Namely, the "Corporate Value-Up Program" may have been set back. Consequently, the so-called **"Korea discount"** may be rendered **harder to shake off** quickly.

FX: KRW may be Prone to Under-performance

KRW, which went into a **tailspin** to fall ~3% (to 1445 levels) on the martial law announcement jolt, has since **partly recovered**; and is **now "only" down less than 2%** (at 1420-1430). Alongside spill-over Trump 2.0 tariff risks, **KRW could face greater downside sensitivities**. *To some extent this could favour a long JPY/KRW position in relative terms (and to be USD agnostic)*.

Yields: Risk Premium may Widen

Earlier last month a sharper drop in KGB yields was partly induced by the surprise BoK cut. And there is an underlying, structurally drag on KGB yields from spill-over deflation shock risks from China. But these are not to be mistaken for diminished risk premium. We expect credit spreads may pushback (widening by 20-30bp is not unimaginable).

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	149.60	149.62	+0.00%	149.00 - 151.50
EURUSD	1.0509	1.0510	+0.10%	1.0470 - 1.0650
GBPUSD	1.2673	1.2674	+0.14%	1.2600 - 1.2780
AUDUSD	0.6486	0.6485	+0.17%	0.6430 - 0.6550
DXY	106.4	--	▼0.08%	105.3 - 106.9
USDCNY	7.2863	--	+0.16%	7.2300 - 7.3000
USDCNH	7.2998	7.2976	+0.18%	7.2300 - 7.3100
USDHKD	7.7828	7.7828	+0.02%	7.7800 - 7.7870
USDSGD	1.3449	1.3449	+0.00%	1.3350 - 1.3500
USDKRW	1407	1429	+0.00%	1400 - 1435
USDTWD	32.54	--	▼0.21%	32.40 - 32.70
USDINR	84.70	--	▼0.01%	84.30 - 85.00
USDIDR	15940	--	+0.25%	15800 - 15990
USDMYR	4.470	4.470	+0.22%	4.440 - 4.490
USDPHP	58.58	--	▼0.15%	58.30 - 59.00
USDTHB	34.39	34.33	▼0.30%	34.20 - 34.70
USDVND	25401	25405	+0.11%	25250 - 25480

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.181	4.225	-0.1	3.3
JGB (JP)	0.609	1.074	-0.5	0.1
Bunds (GE)	1.935	2.052	4.2	2.0
Gilts (UK)	4.221	4.242	1.8	3.1
AGB (AU)	3.956	4.305	-1.9	-2.9
SGS (SG)	2.730	2.686	-1.7	-3.0
CGB (CN)	1.334	1.990	1.0	0.4
KGB (KR)	2.717	2.640	4.0	-0.1
SDL (IN)	6.712	6.610	0.0	-0.5

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	157.2	157.25	+0.10%
GBP/JPY	189.588	189.615	+0.14%
JPY/SGD (100yen)	0.8993	0.8989	+0.03%
JPY/HKD (100yen)	5.2025	5.2019	+0.01%
CNH/JPY	20.457	20.534	▼0.56%
CNH/HKD	1.0681	1.0682	▼0.16%
EUR/GBP	0.82929	0.82929	▼0.04%
AUD/NZD	1.1028	1.1025	+0.29%
EUR/CNH	7.6716	7.6698	+0.29%
GBP/CNH	9.2512	9.2486	+0.32%

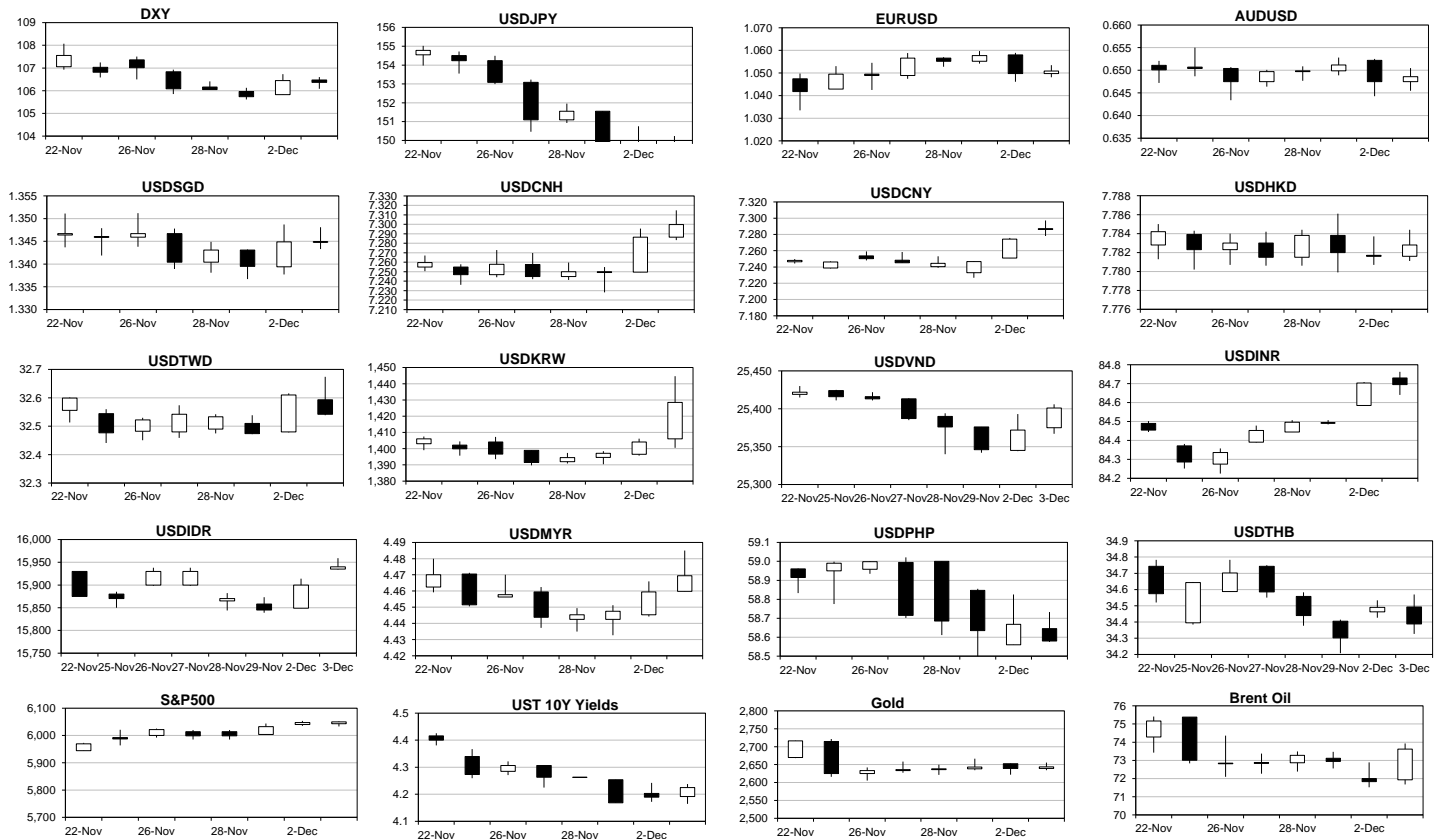
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6049.88	2.73	+0.05%
Nasdaq (US)	19480.91	76.96	+0.40%
DJIA (US)	44705.53	-76.47	▼0.17%
N225 (JP)	39248.86	735.84	+1.91%
STOXX50 (EU)	4878.51	31.78	+0.66%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4562.54	25.63	+0.56%
STI (SG)	3786.13	34.78	+0.93%
SHCOMP (CN)	3378.806	14.82	+0.44%
SZCOMP (CN)	2049.473	-2.96	▼0.14%
HSI (HK)	19746.32	196.03	+1.00%
SENSEX (IN)	80845.75	597.67	+0.74%
JSE (ID)	7196.017	149.03	+2.11%
KLSE (MY)	1606.96	11.48	+0.72%
PSE (PH)	6734.21	-8.68	▼0.13%
SET (TH)	1454.76	17.65	+1.23%
VNINDEX (VN)	1249.83	0.00	▼0.11%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,010.21	136.08	+1.53%
IRON ORE (CN)	105.91	3.67	+0.47%
GOLD	2,643.49	4.36	+0.17%
SILVER	31.04	-0.17	▼5.32%
OIL (BRENT)	73.62	1.79	+2.49%
OIL (WTI)	69.94	1.84	+2.70%
NATURAL GAS	3.04	0.52	+1.72%

CHARTS



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