

Dec 05, 2024

## Three Take-Aways

1) **Beige Book and softer-than-expected US data supported further policy normalisation; US equities rallied and UST yields fell.**

2) **AUD underperformed on weak growth print; odds of first RBA cut brought forward from May to April 2025.**

3) **RBI to defer rate cuts to 2025 on inconvenient inflation.**

## MACRO THEME: Supportive

- Risk sentiments were buoyant as expectations of rate cut odds rose amid softer-than-expected jobs and ISM services print.

- Meanwhile, Beige Book was overall supportive of further policy normalisation. Economic activity grew (albeit small) with business contacts also expressed optimism that demand will rise in coming months; hiring activity was subdued but lay-offs were also low, with many contacts cautious in their optimism about any pickup in hiring activity; prices rose only a modest pace, with both consumer-oriented and business-oriented contacts reporting greater difficulty passing costs on to customers, although some contacts noted upside risks to inflation posed by tariffs.

- The data prints and Beige Book arguably overshadowed some hawkish notes in FedSpeak. Fed Chair Powell remarked that the Fed could afford to be a little more cautious as they try to find neutral, while Fed Musalem commented that the December meeting was open, and the time may be approaching to consider slowing the pace of interest rate reductions, or pausing.

- Brent Crude tumbled -1.8% ahead of OPEC+ meeting today despite expectations of further extension to output cuts, likely reflecting demand woes and expectations of increased supply from non-OPEC+ countries.

**Yields (2Y: -5.3bp; 10Y: -4.4bp, 30Y: -5.7bp)**

- UST yields fell.

**Equities (Nasdaq: +1.3%; S&P: +0.6%; Dow: +0.7%)**

- US equities rallied.

**FX (DXY: -0.0%)**

- The USD traded mixed against the G10 currencies.

- AUD led losses on disappointing growth, and reflected tepid consumer demand and weak exports. Odds of RBA's first cut was brought forward from May meeting to April meeting.

- JPY also underperformed, with USD/JPY briefly touched 151 handle (from around mid-149 levels). In addition to some possible pulling back of haven demand after South Korea's martial law debacle subsides, odds of December hike tumbled from around 55% to 31% despite a lack of data releases or comments from BoJ officials, which could suggest expectations of a more cautious BoJ given higher volatility/uncertainty in view of recent developments.

- EUR oscillated around 1.05 levels as the French government fell after a no-confidence vote in Parliament. President Macron will now need to find a new prime minister who can pass a 2025 budget through a deeply divided parliament and face the same financial squeeze that brought down Barnier's administration.

- Elsewhere, USD/SGD oscillated around mid-1.34 levels.

- KRW also pared losses from the short-lived imposition of martial law the prior day. South Korea opposition party is seeking to impeach President Yoon for treason while BoK said it would deploy measures to expand short-term liquidity temporarily to address market volatility.

## China: Downbeat

- CSI300 and Nasdaq Golden Dragon Index closed 0.5% and 1.4% lower respectively amid softer-than-expected services PMI. Notably, Nasdaq Golden Dragon Index pared back all its gains from Wednesday's session on reports that China's Central Economic Work Conference will be held next week, suggesting cautious sentiments on potential stimulus that may be announced following the conclusion of the meeting.

## RBI: Kicking the Can, Not Canning the (Policy) Kick (from Cuts)

- To be sure, our previous call for a cut in December is not out of question. It is merely inconvenience of the inflation print.

- Admittedly, the **RBI may be kicking the rate cut can down the road into 2025**. This is however a temporary deferment due to the *inconvenient optics of inflation kicking back up* conspiring with the *uncertainties and volatility associated with Trump 2.0*. Whereas the **base case for lowering the policy rate is solid**.

- To be sure, the **resurgence in headline inflation above 6%** (the top side of the RBI's 4%+/-2%-pts) is a **notable impediment for an imminent cut**. But this **does not negate the case for rate cuts**, which is more a **matter of timing** (when to cut) **rather than trajectory** (whether to cut).

- For one, **headline inflation rebound** (to 6.2% in Oct) is **led by volatile food**. Whereas **core inflation remains reasonably contained** (at 3.8%). Crucially, with the policy rate at 6.50%, **real policy rates are well above neutral**. And **more acutely so when gauged in terms of "real core rate"**.

- The upshot is, **even if cyclically overstated**, there appears to be **compelling evidence that underlying inflation has moderated structurally**. And meaningfully so.

- In which case, the likelihood of **neutral rate around 4.50-5.00%** is **not only plausible, but wholly reasonable**. As such, even as the RBI holds in December, **125-150bp of rate cuts into 2025 to lower the policy rate to 5.00-5.25%** is likely; most of which is **front-loaded by mid-2025**.

- That said, worries of rupee depreciation pressures triggered by wider volatility from Trump 2.0 risks could **restrain speed and depth of cuts**. For now, deferred scope for Q4 2024 is set to culminate in 100bp of cuts in H1 2025, with another 25-50bp of follow-up easing in H2.

\* nominal policy rate discounted for core inflation

## DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(CH) Caixin China PMI Services (Nov)	51.5	52.5	52.0
(AU) GDP YoY/SA QoQ (3Q)	0.8%/0.3%	1.1%/0.5%	1.0%/0.2%
(TH) CPI/Core YoY (Nov)	1.0%/0.8%	1.1%/0.8%	0.8%/0.8%
(US) ADP Employment Change (Nov)	146k	150k	184k
(US) Durable Good Orders (Oct F)	0.3%	0.2%	0.2%
(US) ISM Svcs Index/Prices Paid (Nov)	52.1/58.2	57.0/53.0	56.0/58.1
(US) Factory Orders (Oct)	0.2%	0.2%	-0.2%
(EZ) PPI YoY (Oct)	-3.2%	-3.2%	-3.4%
<b>(US) Fed Releases Beige Book</b>			
<b>Today</b>			
(SG) Retail Sales/Ex Auto YoY (Oct)		--	2.0%/-1.4%
(AU) Trade Balance (Oct)		A\$4500m	A\$4609m
(KR) GDP YoY/SA QoQ (3Q P)	1.5%/0.1%	1.5%/0.1%	1.5%/0.1%
(PH) CPI YoY (Nov)		2.5%	2.3%
(TW) CPI/Core YoY (Nov)		2.0%/--	1.7%/1.6%
(TW) PPI YoY (Nov)		--	-0.7%
(US) Trade Balance (Oct)		-\$75.0b	-\$84.4b
(US) Initial Jobless Claims		--	213k
(EZ) Retail Sales YoY (Oct)		2.2%	2.9%

## FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast	
USDJPY	150.59	150.58	+0.66%	148.00	- 153.00
EURUSD	1.0511	1.0512	+0.02%	1.0410	- 1.0600
GBPUSD	1.2701	1.2702	+0.22%	1.2580	- 1.2800
AUDUSD	0.6430	0.6431	▼0.86%	0.6370	- 0.6490
DXY	106.3	--	▼0.04%	105.5	- 107.0
USDCNY	7.2641	--	▼0.30%	7.2300	- 7.3000
USDCNH	7.2776	7.2765	▼0.30%	7.2300	- 7.3200
USDHKD	7.7843	7.7843	+0.02%	7.7800	- 7.7870
USDSGD	1.3439	1.3437	▼0.07%	1.3360	- 1.3500
USDKRW	1415	1413	+0.00%	1395	- 1425
USDTWD	32.43	--	▼0.33%	32.20	- 32.70
USDINR	84.74	--	+0.05%	84.50	- 85.00
USDIDR	15930	--	▼0.06%	15840	- 15990
USDMYR	4.453	4.454	▼0.37%	4.420	- 4.480
USDPHP	58.26	--	▼0.55%	57.80	- 58.60
USDTHB	34.34	34.26	▼0.14%	34.00	- 34.70
USDVND	25405	25409	+0.02%	25350	- 25500

\*Open is as at 8am HKT/SGT.

## MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.128	4.181	-5.3	-4.4
JGB (JP)	0.585	1.057	-2.4	-1.7
Bunds (GE)	1.947	2.058	1.2	0.5
Gilts (UK)	4.231	4.247	1.0	0.5
AGB (AU)	3.878	4.265	-7.8	-4.0
SGS (SG)	2.736	2.697	0.7	1.1
CGB (CN)	1.312	1.973	-2.2	-1.7
KGB (KR)	2.768	2.770	-5.7	-5.3
SDL (IN)	6.685	6.606	0.6	-2.4

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	158.3	158.28	+0.70%
GBP/JPY	191.29	191.253	+0.90%
JPY/SGD (100yen)	0.8923	0.8924	▼0.78%
JPY/HKD (100yen)	5.1679	5.1697	▼0.67%
CNH/JPY	20.688	20.729	+1.13%
CNH/HKD	1.0717	1.0716	+0.34%
EUR/GBP	0.8276	0.82762	▼0.20%
AUD/NZD	1.099	1.0981	▼0.34%
EUR/CNH	7.6489	7.6491	▼0.30%
GBP/CNH	9.2428	9.2422	▼0.09%

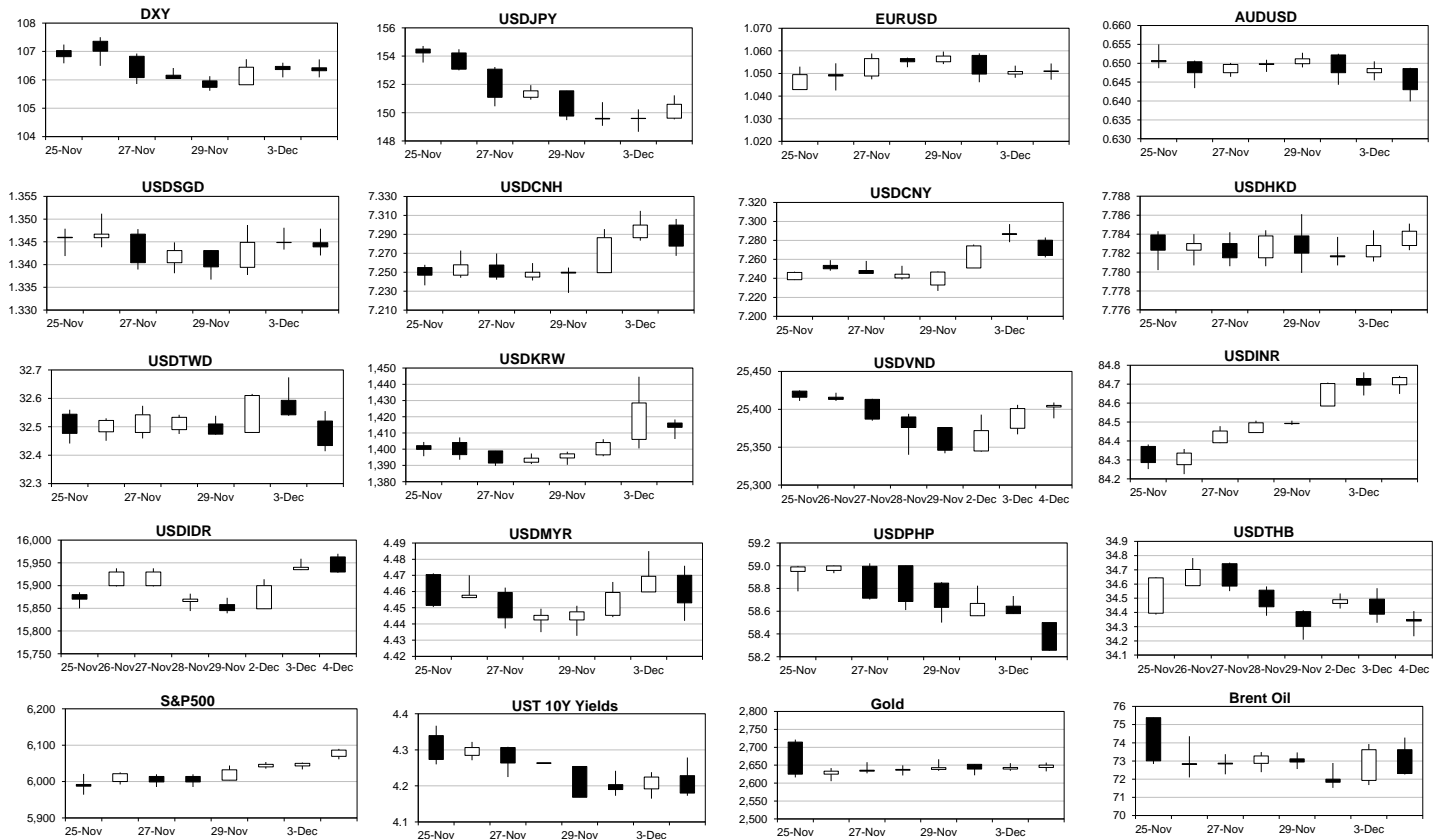
\*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6086.49	36.61	+0.61%
Nasdaq (US)	19735.12	254.21	+1.30%
DJIA (US)	45014.04	308.51	+0.69%
N225 (JP)	39276.39	27.53	+0.07%
STOXX50 (EU)	4919.02	40.51	+0.83%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4554.94	-7.60	▼0.17%
STI (SG)	3799.94	13.81	+0.36%
SHCOMP (CN)	3364.65	-14.16	▼0.42%
SZCOMP (CN)	2024.413	-25.06	▼1.22%
HSI (HK)	19742.46	-3.86	▼0.02%
SENSEX (IN)	80956.33	110.58	+0.14%
JSE (ID)	7326.764	130.75	+1.82%
KLSE (MY)	1614.09	7.13	+0.44%
PSE (PH)	6729.96	-4.25	▼0.06%
SET (TH)	1450.82	-3.94	▼0.27%
VNINDEX (VN)	1240.41	-0.01	▼0.75%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,969.99	-40.22	▼0.45%
IRON ORE (CN)	106.14	3.74	+0.22%
GOLD	2,649.90	6.41	+0.24%
SILVER	31.30	0.00	+0.03%
OIL (BRENT)	72.31	-1.31	▼1.78%
OIL (WTI)	68.54	-1.40	▼2.00%
NATURAL GAS	3.04	0.27	+0.86%

## CHARTS



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