

Dec 06, 2024

## Three Take-Aways

1) French PM ousted in a no-confidence vote. But some relief in EUR and French bonds on signals of political impasse easing.

2) USD a tad softer amid EUR traction. Ahead of US jobs data US equities cautiously and fractionally lower.

3) OPEC delays/stretches out output restoration, starting Apr '25 through Sep '26. Crude prices unimpressed.

## MACRO THEME: Direction of Travel

- It appears that markets are now settling on finding **comfort in the direction of travel rather than bumpy roads** (replete with potholes).

- For **France**, the **direction of travel pertained to getting back to business**, looking past the dire state of political turbulence. Hence, the French no-confidence vote that ousted PM Barriere was admittedly priced in, but to some degree shrugged off as well. What was telling was the **mild recovery in French** (and wider European) **equities** and **narrowing OAT-Bund spreads**. Presumably as markets **look ahead to President Macron's resolve to quickly nominate a PM** and get the Budget pushed through.

- In the **US** too, while markets are cautious ahead of expectations for robust jobs data, that could feed into Fed policy calculus (and rate cut bets). **But the bigger picture** is that the **direction of policy travel remains tilted to more easing**. So, whilst the **pace of rate cuts could be tempered**, the **easing cycle will not be prematurely suspended**. In turn, this ought to provide **some backstop, if not buoyancy, for markets**.

- To some extent, measured traction in Kospi and KRW recovery speak to optimism that **democracy has not made a U-turn in Korea**. In other words, it is **massive relief of a dangerous road not taken**. So even if the impeachment process is disruptive and an unwanted political distraction, it has not the wrong turn.

**Yields (2Y: +1.7bp; 10Y: -0.4bp, 30Y: -1.1bp)**

- UST yields were little changed.

**Equities (Nasdaq: -0.2%; S&P: -0.2%; Dow: -0.6%)**

- US equities closed lower ahead of jobs report, underperforming Europe equity benchmarks.

**FX (DXY: -0.6%)**

- USD pulled back strength as EUR strengthened as French uncertainty fades.

## China: Deflation Dog Not Wagged by the Yield Tail

- **China's persistent deflation threats** are only beginning to be addressed by stimulus but are far from beaten. Point being **chronic**

**overcapacity** onshore, **crushing confidence deficit** and **nascent demographic decline** are **daunting structural forces at play**.

- Whereas **cyclical responses** such as few rate cuts, "cash-for-clunkers" and attempts at debt swap are arguably ill-equipped for, and hence will inevitably **fall far short of, burying deflationary threats**. And so, even as CPI next week may pick-up, it is premature to conclude success. Instead **stubborn PPI deflation may be the inflation gauge to be concerned about**. Meanwhile, **valiant efforts to steepen the yield curve and raise long end yields** may perhaps **well-intention to stem self-fulfilling outcomes**. *But getting the yield (curve) tail to wag* the underlying inflation (in this case snap the *deflation*) *dog is a tall order*.

## OPEC Delays to Ward Off Bears

- The **OPEC's further delay of output restoration** (from the "voluntary curbs in 2023) is apparently **an attempt to ward off an outright bear market**. But this also comes **at the risk of losing market share**. This **delay entails two dimensions**. The first is the timing of **the start of output restoration**. The other is **the pace of phased restoration schedule**.

- The **kick-off for a phased 2.2MBpd restoration**, initially earmarked to begin in October, has been **pushed out for the third time to April 2025**.

- And the **phased restoration will stretch over 18-months** now (into September 2026), from earlier plans to be spread over 12-months.

- **Oil markets barely took notice**, with a **conspicuous absence of any boost to crude prices**. The argument that markets fully anticipated this further delay by OPEC explains why prices remain subdued. But it is **no comfort for the broader softening trend in crude prices** since mid-2024 (from \$85 to \$72 Brent). Which reflects the **ramp-up in US-led oil output elsewhere** (Brazil, Canada etc.) **conspiring with a softer demand outlook**. Consequently, the grim reality for the OPEC is that its past (and now extended) **output restraint may end up providing very little price compensation for the OPEC to reap**. Moreover, someone else might have taken a bite out of its lunch as the **OPEC's prolonged curbs inadvertently painted itself into a more compromised market share positioning**.

- Admittedly, **Trump 2.0 provides opportunities for OPEC to seize**. Especially if the screws on Iran sanctions are tightened and OPEC has an opening to displace Iranian crude supply. *But equally*, Trump 2.0 also entails constraints. A prominent one is the **threat of demand dampeners (on price) in the context of China tariffs**, which are ostensibly a feature of Trump 2.0. But a **curveball risk for the OPEC is Scott Bassent's** (the Treasury Secretary nominee) **desire to raise US output by** (the equivalent of) **3MBpd**. If realized, this poses **a sizable headwind for the OPEC** and Saudi's ability to foster cohesion in the cartel.

## FX OUTLOOK

## DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(SG) Retail Sales/Ex Auto YoY (Oct)	2.2%/0.3%	2.4%/--	1.9%/-1.5%
(AU) Trade Balance (Oct)	A\$5953m	A\$4500m	A\$4532m
(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%	2.5%	2.3%
(TW) CPI/Core YoY (Nov)	2.1%/1.7%	1.9%/1.8%	1.7%/1.6%
(TW) PPI YoY (Nov)	1.2%	--	-0.8%
(US) Trade Balance (Oct)	-\$73.8b	-\$75.0b	-\$83.8b
(US) Initial Jobless Claims	224k	215k	215k
(EZ) Retail Sales YoY (Oct)	1.9%	1.7%	3.0%
<b>Today</b>			
<b>(IN) RBI Repurchase Rate</b>		6.50%	6.50%
(KR) BoP C/A Balance (Oct)	\$9783.6m	--	\$10940.4m
(VN) CPI YoY (Nov)		3.0%	2.9%
(VN) Trade Balance (Nov)		\$1276m	\$1987m
(VN) Industrial Production (Nov)		--	7.0%
(VN) Retail Sales YoY (Nov)		--	7.1%
(US) Change in Nonfarm Payrolls (Nov)		220k	12k
(US) UoM Sentiment/Expt (Dec P)		73.3/77.7	71.8/76.9
(US) UoM 1Y/5-10Y Inflation (Dec P)		2.7%/3.1%	2.6%/3.2%
(JP) Coincident Index/Leading Index CI (Oct P)		117.7/108.8	115.3/109.1
(JP) Labour Cash Earnings YoY (Oct)		2.6%	2.5%
(JP) Household Spending YoY (Oct)		-1.3%	-2.5%
			-1.1%

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	150.10	150.20	▼0.33%	148.00 - 153.00
EURUSD	1.0586	1.0586	+0.71%	1.0470 - 1.0680
GBPUSD	1.2759	1.2760	+0.46%	1.2630 1.2880
AUDUSD	0.6453	0.6450	+0.36%	0.6380 - 0.6500
DXY	105.7	--	▼0.57%	105.4 - 106.6
USDCNY	7.2588	--	▼0.07%	7.2300 - 7.3000
USDCNH	7.2635	7.2633	▼0.19%	7.2300 - 7.3200
USDHKD	7.7822	7.7819	▼0.03%	7.7700 - 7.7860
USDSGD	1.3389	1.3386	▼0.37%	1.3290 - 1.3500
USDKRW	1416	1416	+0.00%	1405 - 1425
USDTWD	32.44	--	+0.03%	32.20 32.65
USDINR	84.74	--	+0.00%	84.60 - 85.00
USDIDR	15860	--	▼0.44%	15770 - 15950
USDMYR	4.427	4.429	▼0.58%	4.390 - 4.460
USDPHP	57.89	--	▼0.64%	57.40 - 58.40
USDTHB	34.34	34.09	+0.00%	33.90 - 34.50
USDVND	25392	25395	▼0.05%	25300 - 25500

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

## MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.145	4.177	1.7	-0.4
JGB (JP)	0.588	1.064	0.3	0.7
Bunds (GE)	2.012	2.110	6.5	5.1
Gilts (UK)	4.271	4.280	4.0	3.3
AGB (AU)	3.863	4.235	-1.5	-3.0
SGS (SG)	2.736	2.697	0.1	0.0
CGB (CN)	1.310	1.957	-0.3	-1.6
KGB (KR)	2.749	2.770	-1.1	1.7
SDL (IN)	6.680	6.623	-0.2	0.3

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	158.91	158.99	+0.39%
GBP/JPY	191.548	191.641	+0.13%
JPY/SGD (100yen)	0.8917	0.8912	▼0.07%
JPY/HKD (100yen)	5.1846	5.1812	+0.32%
CNH/JPY	20.688	20.693	+0.00%
CNH/HKD	1.0722	1.0722	+0.05%
EUR/GBP	0.82971	0.82962	+0.25%
AUD/NZD	1.0963	1.0966	▼0.25%
EUR/CNH	7.6892	7.6886	+0.53%
GBP/CNH	9.269	9.2676	+0.28%

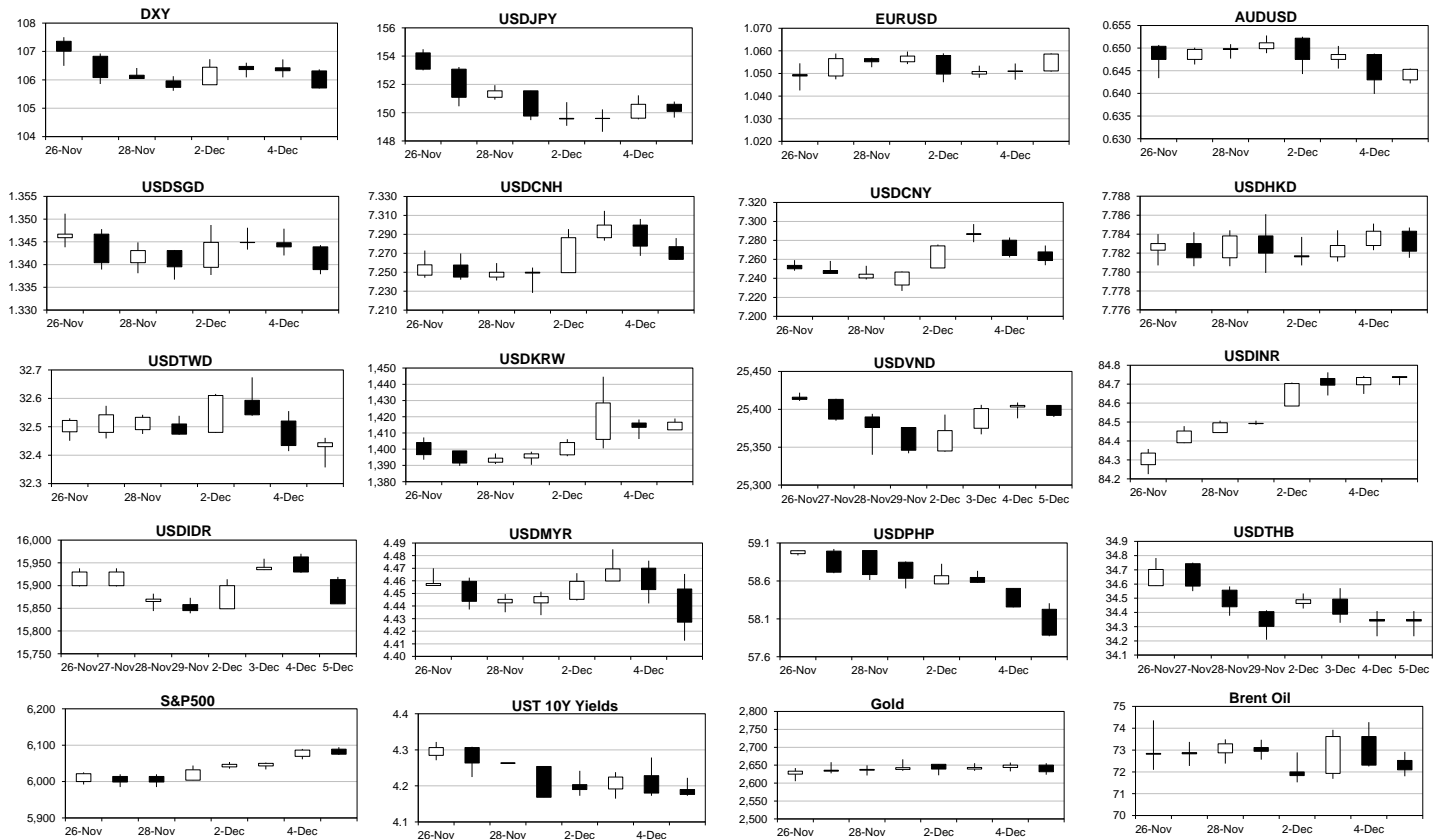
\*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6075.11	-11.38	▼0.19%
Nasdaq (US)	19700.72	-34.40	▼0.17%
DJIA (US)	44765.71	-248.33	▼0.55%
N225 (JP)	39395.6	119.21	+0.30%
STOXX50 (EU)	4951.58	32.56	+0.66%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4561.21	6.27	+0.14%
STI (SG)	3822.68	22.74	+0.60%
SHCOMP (CN)	3368.855	4.20	+0.12%
SZCOMP (CN)	2039.309	14.90	+0.74%
HSI (HK)	19560.44	-182.02	▼0.92%
SENSEX (IN)	81765.86	809.53	+1.00%
JSE (ID)	7313.313	-13.45	▼0.18%
KLSE (MY)	1615.64	1.55	+0.10%
PSE (PH)	6690.77	-39.19	▼0.58%
SET (TH)	1450.82	0.00	+0.00%
VNINDEX (VN)	1267.53	0.02	+2.19%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,961.83	-8.16	▼0.09%
IRON ORE (CN)	104.74	2.35	▼1.32%
GOLD	2,631.67	-18.23	▼0.69%
SILVER	31.31	0.04	+1.18%
OIL (BRENT)	72.09	-0.22	▼0.30%
OIL (WTI)	68.30	-0.24	▼0.35%
NATURAL GAS	3.08	0.01	+0.02%

## CHARTS



## RESEARCH TEAM

Vishnu Varathan | Serena Zhou | Ken Cheung | Tan Boon Heng | Tan Jing Yi

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