

Dec 12, 2024

## Three Take-Aways

1) Markets closed in on a 25bps cut at FOMC next week as inflation printed in-line with expectations.

2) RBA, RBI appears to be relenting from a hold posture as latest developments signal impending cuts on table; could see greater volatility in FX and rates.

3) ECB set to cut by another 25bps; focus will be on 2025 outlook.

## MACRO THEME: Done Deal?

- A 25bps cut at the meeting next week appears to be a done deal following inflation printing in-line with expectations. Fed Fund futures are pricing in 99% odds of a cut at next week's meeting, up from 86% a day ago. Nonetheless, the focus of the next meeting is arguably on the 2025 outlook, given that inflation progress appears to be stalling with MoM core inflation printing a 0.3% increase for the fourth straight month. That UST yields reversed declines and closed higher could be a reflection of such circumspection.

- Meanwhile, Brent Crude surged +2.0% to >US\$73/bbl on reports that Biden administration was considering new sanctions on Russia's oil trade. OPEC's cut in oil demand growth forecasts was shrugged off, as this was likely due following last week's decision to delay output restoration.

**Yields (2Y: +0.9bp; 10Y: +4.5bp, 30Y: +6.4bp)**

- The UST yield curve moved higher in a steepening move.

**Equities (Nasdaq: +1.8%; S&P: +0.8%; Dow: -0.2%)**

- US equities mostly closed higher.

**FX (DXY: +0.3%)**

- Commodity currencies were better supported amid Brent Crude's gains, and AUD recovered ground above mid-63 cents despite CNH spillovers. Meanwhile, CAD was also supported after policymakers signalled they were ready to slow down on monetary easing after the second 50bps cut yesterday.

- JPY led losses, with USD/JPY briefly surging above mid-152 levels, on reports that BoJ officials see a small cost to waiting before raising interest rates while still being open to a Dec hike. Odds of a 25bps hike by BoJ next week tumbled further to 19%, from 23% a day ago. EUR also underperformed, dipping below 1.05 ahead of a ECB meeting today.

## China: Greater Tolerance of RMB Weakness

- CNH slid on reports that policymakers were considering the possibility of allowing the yuan to depreciate\*. PBoC-backed Financial news also published a commentary that RMB has a "solid foundation to remain basically stable" but could see two-way volatility. Nonetheless, the article warned against making bets on the currency's direction and cautioned against speculating and hoarding foreign exchange in order to avoid suffering additional losses.

\*Beijing also allowed the RMB to depreciate during Trump's first presidency.

## Dovish Turns for the RBA & RBI

- In Asia, there have only been two notable hold-out central banks in terms of kick-starting the easing cycle – the RBA and the RBI. Both have now effectively relented, signalling impending (likely in February at their respective next meetings) cuts on the table.

- The **RBA has done this with a very dovish hold** at the latest meeting earlier this week. This has significantly raised the odds for a cut at the February meeting. Swap markets now have a 25bp as the base case, with the likelihood of at least two more cuts into Q3 2025.

- The **RBI has had an even more dramatic shift in stance**; with a surprise choice of new Governor. After a six-year term, **Governor Saktiandi Das who has thus far resisted easing will be now replaced with Sanjay Malhotra**. The end of Das' term was expected. But the pick is a surprise. And while the new Governor has not expressly revealed a stance, **Malhotra has hinted at a greater propensity to cut**. Malhotra's allusion to "huge responsibility .. in ... ensuring ... growth" in his maiden speech reinforces our view of a cut at the next meeting in February.

- In the near-term, this could result in greater rates volatility in Aussie and Indian rates. For one, there may be greater tensions from a Fed that, in contrast, is set to turn less dovish (probably with revised down rate cuts in the Dec 'Dot Plot'). What's more, the stronger USD phenomenon pressuring AUD and INR may be accentuated.

- To be sure, the direction of travel of global rates is still down. In which case, **resistance (to cuts) was set up to be futile**. But the **rate and attendant FX path are predisposed to be very volatile**. *Perhaps exceptionally so in the context of Trump 2.0 uncertainties*. And the **two biggest central bank fears** in this environment are; i) **stagflation-type pressures** and; ii) **impeded policy transmission**.

## ECB: Cautious Easing

- We expect ECB to proceed with another 25bps cut at the upcoming meeting (12 Dec), but could be a hawkish cut as ECB amid heightened uncertainty.

- **The case for further easing remains given growth risks and taming inflation**. While Q3 GDP printed higher-than-expected, higher-frequency and forward-looking indicators do not paint a rosy picture. Industrial production and November PMIs pointing to contracting economic activity. Meanwhile, inflation touched ECB's 2% target in October but edged higher to 2.3% in November due to base effects in fuel prices.

- Nonetheless, hawkish notes have been already evident in recent remarks. ECB Lagarde has remarked that the fight against inflation is approaching its end but has not been won yet, while ECB Schnabel saw limited room for easing, warning that policy easing should not move into accommodative territory and downplayed recession risks.

- With Lagarde's comment that ECB will have to move from backward to forward looking, focus will likely be on any revisions to the macroeconomic projections for growth and inflation.

## DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(KR) Unemployment rate SA (Nov)	2.7%	2.8%	2.7%
(US) CPI/Ex Food, Energy YoY (Nov)	2.7%/3.3%	2.7%/3.3%	2.6%/3.3%
(US) Real Avg Weekly Earnings YoY (Nov)	1.0%	--	1.1%
(JP) BSI Large All Industry QoQ (4Q)	5.7%	--	5.1
(JP) PPI YoY (Nov)	3.7%	3.4%	3.4%
Today			
(AU) Employment Change (Nov)		25.0k	15.9k
(AU) Unemployment Rate (Nov)		4.2%	4.1%
(IN) CPI YoY (Nov)		5.5%	6.2%
(IN) Industrial Production YoY (Oct)		3.6%	3.1%
(US) Initial Jobless Claims		220k	224k
(US) PPI Final Demand YoY (Nov)		2.6%	2.4%
(US) PPI Ex Food, Energy YoY (Nov)		3.2%	3.1%
(EZ) ECB Deposit Facility Rate		3.00%	3.25%

## FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	152.45	152.27	+0.33%	151.00 - 153.70
EURUSD	1.0496	1.0506	▼0.29%	1.0400 - 1.0600
GBPUSD	1.2751	1.2765	▼0.16%	1.2640 - 1.2880
AUDUSD	0.6369	0.6383	▼0.13%	0.6320 - 0.6460
DXY	106.7	--	+0.29%	106.2 - 107.3
USDCNY	7.2630	--	+0.18%	7.2500 - 7.3000
USDCNH	7.2791	7.2695	+0.29%	7.2400 - 7.3100
USDHKD	7.7746	7.7748	+0.01%	7.7680 - 7.7840
USDSGD	1.3447	1.3431	+0.21%	1.3340 - 1.3520
USDKRW	1429	1429	+0.00%	1420 - 1440
USDTWD	32.52	--	+0.21%	32.30 - 32.70
USDINR	84.84	--	▼0.01%	84.60 - 85.00
USDIDR	15915	--	+0.32%	15800 - 15980
USDMYR	4.433	4.433	+0.14%	4.390 - 4.460
USDPHP	58.30	--	+0.49%	57.70 - 58.70
USDTHB	33.89	33.83	+0.24%	33.50 - 58.70
USDVND	25375	25378	+0.01%	25300 - 25450

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

## MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.154	4.272	0.9	4.5
JGB (JP)	0.586	1.068	0.6	0.4
Bunds (GE)	1.947	2.125	-1.1	0.5
Gilts (UK)	4.247	4.316	-2.7	-0.6
AGB (AU)	3.789	4.185	2.1	4.6
SGS (SG)	2.728	2.697	1.6	0.8
CGB (CN)	1.280	1.830	-0.4	-1.8
KGB (KR)	2.694	2.658	6.4	0.9
SDL (IN)	6.717	6.635	0.8	0.6

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	160.01	159.96	+0.03%
GBP/JPY	194.394	194.359	+0.17%
JPY/SGD (100yen)	0.8817	0.8821	▼0.15%
JPY/HKD (100yen)	5.0991	5.1061	▼0.32%
CNH/JPY	21.021	20.966	+0.31%
CNH/HKD	1.0708	1.0705	▼0.16%
EUR/GBP	0.82318	0.82302	▼0.13%
AUD/NZD	1.1012	1.1018	+0.14%
EUR/CNH	7.6396	7.637	▼0.01%
GBP/CNH	9.2825	9.2792	+0.15%

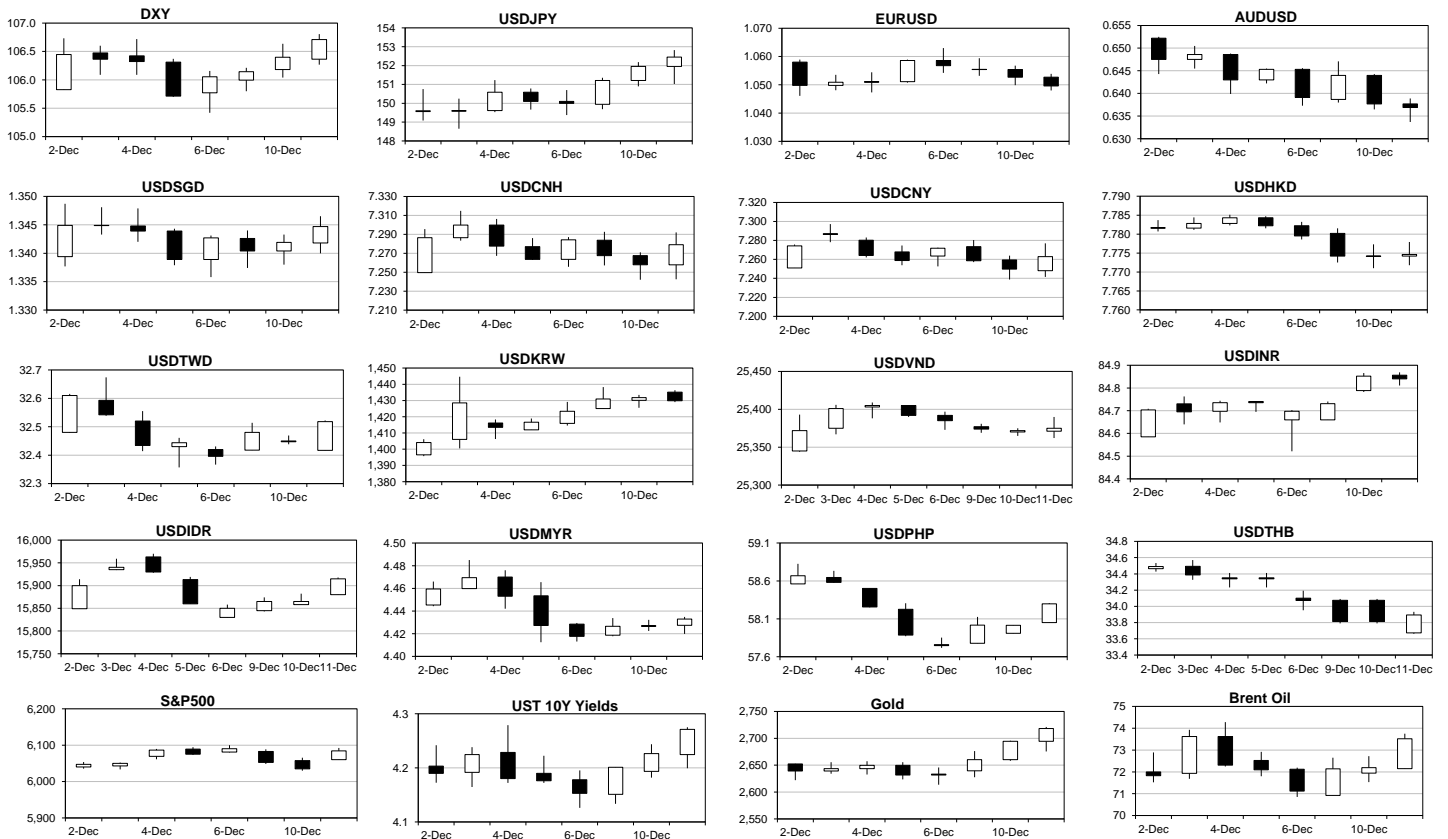
\*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6084.19	49.28	+0.82%
Nasdaq (US)	20034.89	347.65	+1.77%
DJIA (US)	44148.56	-99.27	▼0.22%
N225 (JP)	39372.23	4.65	+0.01%
STOXX50 (EU)	4959.35	7.61	+0.15%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4538.41	9.77	+0.22%
STI (SG)	3792.82	-20.73	▼0.54%
SHCOMP (CN)	3432.49	9.83	+0.29%
SZCOMP (CN)	2090.917	15.75	+0.76%
HSI (HK)	20155.05	-156.23	▼0.77%
SENSEX (IN)	81526.14	16.09	+0.02%
JSE (ID)	7464.752	11.47	+0.15%
KLSE (MY)	1603.2	-5.77	▼0.36%
PSE (PH)	6642.71	-82.11	▼1.22%
SET (TH)	1443.05	-4.48	▼0.31%
VNINDEX (VN)	1268.86	0.00	▼0.25%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,074.07	-26.97	▼0.30%
IRON ORE (CN)	105.14	-1.00	▼0.95%
GOLD	2,718.23	23.98	+0.89%
SILVER	31.90	0.22	+0.69%
OIL (BRENT)	73.52	1.33	+1.84%
OIL (WTI)	70.29	1.70	+2.48%
NATURAL GAS	3.38	-0.01	▼0.03%

## CHARTS



## RESEARCH TEAM

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

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