

Dec 17, 2024

Three Take-Aways

- 1) UST yields little changed ahead of FOMC.
- 2) BSP to cut rates by another 25bps on downside growth risks, amid tolerance for a weaker PHP.
- 3) CBC to keep rates unchanged as inflation remains sticky.

MACRO THEME: Bated Breath

- Action in US Treasury market was relatively measured ahead of key policy decisions this week and relatively quiet data calendar in G3 economies. Services PMIs in US and EZ surprised on the upside, while manufacturing PMIs disappointed.

- Brent crude fell -0.8% as tepid consumer demand from China weighed on outlook.

Yields (2Y: +0.4bp; 10Y: +0.1bp, 30Y: -0.3bp)

- UST yields were little changed. Gilts yields moved higher across the curve (2Y: +4.8bp; 10Y: +3.0bps; 30Y: +2.0bps) as markets trimmed BoE's rate cut bets despite mixed PMI prints.

Equities (Nasdaq: +1.2%; S&P: +0.4%; Dow: -0.3%)

- US equities traded mixed. Consumer discretionary counters led gains, while energy counters led losses.

FX (DXY: -0.1%)

- The USD traded mixed against G10 currencies.

- GBP outperformed, led by higher Gilt yields.

- AUD was mostly buoyant above mid-63 cents.

- JPY led losses, with USD/JPY moving higher to above 154 levels as markets pushed back expectations of a BoJ hike.

- EUR performed in the middle of the pack, trading at around 1.05 levels. ECB Lagarde and Schnabel maintained their rhetoric that ECB could cut further, with the latter cautioning against cutting too fast.

- Elsewhere, USD/SGD moved higher to around 1.35 levels.

- In other news, two RBA monetary board members were replaced following a reform to split RBA's board into two entities - one focussed on monetary policy, and the other on governance. This new board could add some uncertainty to RBA's reaction function heading into next year.

China: Downbeat

- Chinese equities closed lower (CSI300: -0.5%; Nasdaq Golden Dragon Index: -2.2%) as China's retail sales growth unexpectedly weakened in November. Some signs of improvement in the housing market did little to lift sentiments, suggesting little optimism on improved domestic demand, especially as Beijing pledges to boost consumption fall short of specifics.

BSP: Continued Easing

- We expect BSP to proceed with the third consecutive 25bps cut at the next meeting.

- While inflation since the last meeting on 16 Oct has been edging up, the headline number remains in the bottom-half of BSP's 2-4% target band. Even as BSP flagged that balance of risks to CPI outlook has shifted to the upside on utilities and wages, this should not be misunderstood as inflation exceeding the target range, but rather that inflation in coming months could move higher *within* the target range. In fact, BSP also expressed its expectation for CPI to trend closer to the low end of target near term.

- Accordingly, the case for easing remains, especially amid growth risks. Q3 GDP disappointed, posting a sharp moderation to 5.2% YoY (from 6.3% in Q2) on weak exports and moderating government consumption growth. In addition, deteriorating trade balance coupled with continued bad weather poses downside risks to Philippines Q4 GDP outlook, even if household could provide some support on higher spending for the holiday season.

- Nonetheless, we think there is a tail risk for BSP to proceed with a dovish hold amid PHP pressure. BSP has confirmed FX intervention when PHP was flirting with the 59 level. But this remains a tail risk as BSP appears to be willing to tolerate PHP weakness at a higher USD/PHP level, with Governor Remolona expressing that USD/PHP may go to the 60 handle.

CBC: Looking Past Uncertainty

- The CBC will likely keep rates unchanged at their upcoming meeting on 19 December. Since the last meeting in September, TWD has only depreciated 1.6% outperforming the majority of regional peers such as the SGD and the THB, with only the INR doing better which is an artefact of the RBI.

- While TWD does not provide a strong impetus for a rate hold, **lack of inflation progress** imply that current stance is needed to guide inflation to target.

- Driven by strong private investment and restocking needs, **robust GDP growth** averaging 5.2% YoY for first 3 Q of 2024, significantly above 2015-19's 2.7% also implies that no immediate need for easing even though one may remain wary for tariffs implications.

- Admittedly, softer property prices seen in Taipei City for October may pave the way for easing in 2025 should the trend persist and growth weakens. Nonetheless, this is not the base case at this juncture as the labour market remains robust with the unemployment rate still near record lows.

- TWD bulls need to be watchful for cross straits tensions as reminded by frequent Chinese aircraft incursions.

DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(CH) Industrial production YoY (Nov)	5.4%	5.4%	5.3%
(CH) Surveyed Jobless Rate (Nov)	5.0%	5.0%	5.0%
(CH) Retail Sales YoY (Nov)	3.0%	5.0%	4.8%
(CH)FAI/Property Invmts YTD YoY(Nov)	3.3%/-10.4%	3.5%/-	3.4%/-10.3%
(CH) New Home Prices MoM (Nov)	-0.2%	--	-0.5%
(ID) Exports/Imports YoY (Nov)	9.1%/0.0%	6.3%/7.1%	10.3%/17.5%
(IN) Wholesale Prices YoY (Nov)	1.9%	2.1%	2.4%
(PH) Overseas Remittances YoY (Oct)	2.7%	3.2%	3.3%
(US) Empire Manufacturing (Dec)	0.2	10.0	31.2
(JP) Tertiary Industry Index MoM (Oct)	0.3%	-0.1%	-0.1%
(JP) Core Machine Orders YoY (Oct)	1.1%	2.1%	-4.8%
Today			
(SG) Non-oil Domestic Exports YoY (Nov)		-1.0%	-4.6%
(US) Retail Sales Advance/Ex Auto, Gas MoM (Nov)		0.6%/0.4%	0.4%/0.1%
(US) Industrial Production MoM (Nov)		0.3%	-0.3%
(EZ) Trade Balance SA (Oct)		11.6b	13.6b
(GE) IFO Business Climate/Expt (Dec)		85.5/87.5	85.7/87.2
(GE) ZEW Survey Current Situation/Expt (Dec)		-92.6/6.9	-91.4/7.4

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	154.15	154.11	+0.33%	153.00 - 155.50
EURUSD	1.0512	1.0517	+0.10%	1.0430 - 1.0580
GBPUSD	1.2683	1.2692	+0.51%	1.2580 - 1.2770
AUDUSD	0.6371	0.6376	+0.14%	0.6330 - 0.6430
DXY	106.9	--	▼0.14%	106.4 - 107.5
USDCNY	7.2839	--	+0.14%	7.2600 - 7.3100
USDCNH	7.2923	7.2892	+0.15%	7.2600 - 7.3100
USDHKD	7.7741	7.7744	▼0.02%	7.7680 - 7.7840
USDSGD	1.3498	1.3492	+0.07%	1.3420 - 1.3570
USDKRW	1437	1438	+0.00%	1430 - 1450
USDTHB	32.50	--	▼0.06%	32.40 - 32.70
USDINR	84.87	--	+0.09%	84.70 - 85.10
USDIDR	16000	--	+0.03%	15900 - 16100
USDMYR	4.449	4.452	▼0.00%	4.430 - 4.480
USDPHP	58.69	--	+0.38%	58.30 - 59.00
USDTHB	34.07	34.06	▼0.16%	33.8 - 34.3
USDVND	25393	25393	▼0.04%	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)	4.251	4.399	0.4	0.1
JGB (JP)	0.575	1.064	1.9	3.0
Bunds (GE)	2.046	2.245	-2.1	-1.1
Gilts (UK)	4.352	4.441	4.9	3.0
AGB (AU)	3.920	4.317	2.0	2.7
SGS (SG)	2.795	2.775	3.4	4.9
CGB (CN)	1.156	1.718	-2.0	-5.5
KGB (KR)	2.721	2.661	-0.3	0.4
SDL (IN)	6.743	6.675	0.4	1.9

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	162.03	162.07	+0.41%
GBP/JPY	195.504	195.582	+0.83%
JPY/SGD (100yen)	0.8755	0.8755	▼0.31%
JPY/HKD (100yen)	5.0427	5.0449	▼0.39%
CNH/JPY	21.15	21.157	+0.09%
CNH/HKD	1.0673	1.0673	▼0.17%
EUR/GBP	0.82876	0.82866	▼0.42%
AUD/NZD	1.1019	1.1009	▼0.21%
EUR/CNH	7.666	7.6661	+0.28%
GBP/CNH	9.2498	9.2511	+0.71%

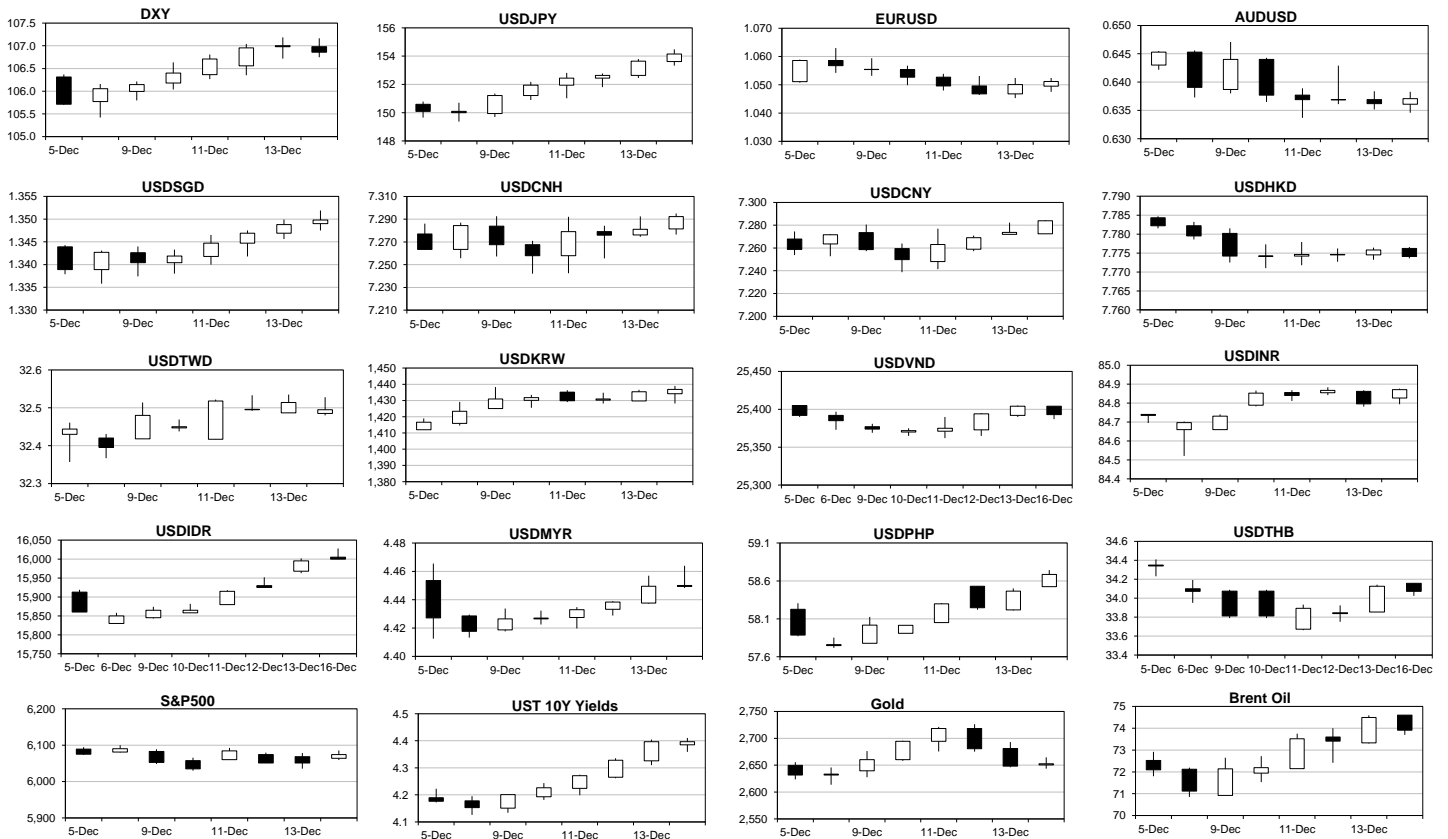
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6074.08	22.99	+0.38%
Nasdaq (US)	20173.89	247.17	+1.24%
DJIA (US)	43717.48	-110.58	▼0.25%
N225 (JP)	39457.49	-12.95	▼0.03%
STOXX50 (EU)	4947.03	-20.92	▼0.42%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4515.16	-20.25	▼0.45%
STI (SG)	3821.03	10.68	+0.28%
SHCOMP (CN)	3386.331	-5.55	▼0.16%
SZCOMP (CN)	2049.098	-21.33	▼1.03%
HSI (HK)	19795.49	-175.75	▼0.88%
SENSEX (IN)	81748.57	-384.55	▼0.47%
JSE (ID)	7258.631	-66.16	▼0.90%
KLSE (MY)	1606.85	-1.90	▼0.12%
PSE (PH)	6615.16	-1.35	▼0.02%
SET (TH)	1419.72	-11.95	▼0.83%
VNINDEX (VN)	1263.79	0.00	+0.10%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,942.47	1.94	+0.02%
IRON ORE (CN)	105.66	-0.03	+0.57%
GOLD	2,652.72	4.49	+0.17%
SILVER	30.55	-0.07	▼2.01%
OIL (BRENT)	73.91	-0.58	▼0.78%
OIL (WTI)	70.71	-0.58	▼0.81%
NATURAL GAS	3.21	0.00	▼0.01%

CHARTS



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