

Dec 20, 2024

## Three Take-Aways

- 1) Longer-end UST yields pulled higher amid Trump's calls to remove debt ceiling.
- 2) As expected, BOJ, BOE, Norges Bank and CBC held rates, while Riksbank and BSP cut rates; FX moves dictated by dovish/hawkish tones.
- 3) Fed's hawkish pivot may be overdone amid inflation uncertainty and demand risks.

## MACRO THEME: Of Policy and Politics

- Following FOMC, a deluge of policy meetings from G10 and Asia currencies came into focus, although UST yield curve continued steepening on uncertainty of US fiscal trajectory outlook.

**Yields (2Y: -3.9bp; 10Y: +4.8bp, 30Y: +5.9bp)**

- UST yield curve steepened, with the longer end pulled higher on expectations of higher US debt left. Trump killed House Speaker Mike Johnson's original stopgap plan to fund the government through March 14, and said the US federal government will shut down if the debt ceiling is not eliminated or extended.

- Following market close, Trump endorsed a new effort by Johnson to avoid a government shutdown with a spending plan that suspends the nation's debt limit for two years, but that spending deal failed to pass in the House.

**Equities (Nasdaq: -0.1%; S&P: -0.1%; Dow: +0.0%)**

- US equities were mostly lower marginally.

**FX (DXY: +0.4%)**

- The DXY extended its climb, but USD traded mixed against G10 currencies amid a slew of central bank decisions.

- JPY led losses, with USD/JPY surging above 157 levels (from mid-154 post-FOMC) as hopes of a hike were tempered by BoJ's urge for patience. While BoJ held rates as expected, it indicated a preference to wait for wage data (namely, spring wage negotiations) before deciding. In particular, Governor Ueda remarked that certain degree of info expected on wages by next meeting, while the big picture of wage trend would likely be clear in March or April.

- GBP also underperformed amid BOE's dovish hold. Policymakers voted 6-3 to hold policy rates at 4.75%, but signalled more easing to come.

- NOK traded lower as Norges Bank held its benchmark rate at 4.5%, but signalled a probable cut in March. SEK outperformed despite Riksbank's 25bps cut as the central bank signalled its easing campaign is likely near its end. Remarks by officials suggested one more cut in first half next year if outlook remained unchanged.

- Elsewhere, EUR was buoyant above mid-1.35 levels while AUD hovered above 62 cents.

- In Asia, TWD was lower against the greenback as CBC kept rates

unchanged but expressed that recent housing curbs had some effect, which could possibly pave the way for some easing.

- PHP was little changed as BSP policy rate by 25bps - its third consecutive cut, as expected. While signalling more easing to come, BSP said that 100bps rate cuts in 2025 was too much. Elsewhere, USD/SGD traded around 1.36 levels.

## China: Resisting Pressure

- The USD/CNY fixing-survey gap widened to -1232 pips yesterday, the largest level since July. This widening gap mirrored the mounting FX depreciation pressure due to USD strength and the PBoC's escalating efforts to defend the currency.

## Fed: The Problem with Partial Assumptions

- Insofar that the Fed's hawkish pivot accompanying (and essentially overwhelming!) the 25bp cut only partially incorporates Trump 2.0 risks, it may be problematic. Point being, halving of 2025 'Dot Plot' rate reduction to 50bp was presumably premised on hawkish economic upgrades; comprising inflation projections bumped up and unemployment nudged lower.

- At face value, the proportionate 50bp inflation-jobs (PCE up 40bp and unemployment down 10bp) hawkish upgrade appears to square with the hawkish 50bp 'Dot Plot' shift. But the trouble is, the assumptions of "Trump-flation" risk are at best incomplete. At worst, outright biased.

- To be sure, it is revealed that uncertainty around inflation forecasts have increased materially. But despite the uncertainty, the emphasis appears to be on the upside bias in Trump 2.0 for inflation. Specifically, less uncertain (and coincidentally *reflationary*) outcomes such as tax cuts and deregulation are ostensibly being incorporated by some. In contrast, more uncertain outcomes related to trade tariffs (and consequent retaliation), with distinctly adverse economic effects, are omitted from economic forecasts. It is understandable to preclude the complexities of uncertainty.

- But it is mistake to confuse the uncertain for the improbable\*. The precise outcomes from trade antagonism may be highly uncertain. But there are significant probabilities of global trade friction, to the detriment of US (onshore) demand (after higher import prices are borne\*\*). Moreover, dis-inflation from money-multiplier suppression resulting from Bessent's fiscal deficit reduction plans alongside cost slashing ambitions of minted DOGE also appear to be out of the Fed's calculus.

- So, what's potentially problematic is that Trump 2.0 appears to be framed with the bias reflation whilst under-accounting for adverse demand risks as well as unfamiliar dis-inflation dynamics. In turn, this suggests that the Fed's hawkish flex may be inadvertently overdone. The resultant curve ball for markets from this may be UST yields unexpectedly turning sharply lower heading into 2025.

\* "Knightian uncertainty" (derived from Frank Knight's characterization of uncertainty) refers to the inability to predict (ascribe probabilities to outcomes), hence quantify due to unknowns that cannot be modelled. But these are not necessarily proportionately improbable.

\*\* The US does not have the luxury of benefiting from import substitution for a large swathe of goods.

## DATA/EVENTS

| Yesterday                                | Actual             | Exp.               | Prior        |
|--|--------------------|--------------------|--------------|
| (PH) BoP Overall (Nov)                   | -\$2,276m          | --                 | -\$724m      |
| <b>(PH) BSP Overnight Borrowing Rate</b> | <b>5.75%</b>       | <b>5.75%</b>       | <b>6.00%</b> |
| <b>(TW) CBC Benchmark Interest Rate</b>  | <b>2.00%</b>       | <b>2.00%</b>       | <b>2.00%</b> |
| <b>(JP) BoJ Target Rate</b>              | <b>0.25%</b>       | <b>0.25%</b>       | <b>0.25%</b> |
| (US) Existing Home Sales (Nov)           | 4.15m              | 4.08m              | 3.96m        |
| (US) Initial Jobless Claims              | 220k               | 230k               | 242k         |
| (US) GDP Annualized QoQ (3Q T)           | 3.1%               | 2.8%               | 2.8%         |
| (US) Leading Index (Nov)                 | 0.3%               | -0.1%              | -0.4%        |
| (US) Philadelphia Fed Biz Outlook (Dec)  | -16.4              | 2.8                | -5.5         |
| <b>Today</b>                             |                    |                    |              |
| <b>(CH) 1Y/5Y Prime Rate</b>             | <b>3.10%/3.60%</b> | <b>3.10%/3.60%</b> |              |
| (KR) PPI YoY (Nov)                       | --                 | --                 | 1.0%         |
| (MY) CPI YoY (Nov)                       | --                 | 2.0%               | 1.9%         |
| (TW) Export Orders (Nov)                 | --                 | 6.8%               | 4.9%         |
| (US) PCE/Core Deflator YoY (Nov)         | --                 | 2.5%/2.9%          | 2.3%/2.8%    |
| (US) Personal Income/Spending (Nov)      | --                 | 0.4%/0.5%          | 0.6%/0.4%    |
| (US) Kansas City Fed Mfg Activity (Dec)  | --                 | --                 | -2.0         |
| (EZ) Consumer Confidence (Dec P)         | --                 | -13.2              | -13.7        |
| (JP) Natl CPI YoY (Nov)                  | 2.9%               | 2.9%               | 2.3%         |

## FX OUTLOOK

| FX     | Close (NY) | Open*  | Daily %Δ | Forecast        |
|--------|------------|--------|----------|-----------------|
| USDJPY | 157.44     | 157.66 | +1.71%   | 156.50 - 160.00 |
| EURUSD | 1.0363     | 1.0364 | +0.10%   | 1.0270 - 1.0440 |
| GBPUSD | 1.2502     | 1.2498 | ▼0.57%   | 1.2380 - 1.2600 |
| AUDUSD | 0.6239     | 0.6231 | +0.34%   | 0.6170 - 0.6270 |
| DXY    | 108.4      | --     | +0.35%   | 107.8 - 108.9   |
| USDCNY | 7.2958     | --     | +0.14%   | 7.2800 - 7.3300 |
| USDCNH | 7.3091     | 7.3115 | ▼0.22%   | 7.3000 - 7.3500 |
| USDHKD | 7.7697     | 7.7700 | ▼0.01%   | 7.7500 - 7.7840 |
| USDSGD | 1.3613     | 1.3618 | ▼0.13%   | 1.3550 - 1.3720 |
| USDKRW | 1449       | 1446   | +0.00%   | 1440 - 1460     |
| USDTWD | 32.68      | --     | +0.58%   | 32.50 - 32.90   |
| USDINR | 85.08      | --     | +0.14%   | 84.90 - 85.30   |
| USDIDR | 16290      | --     | +1.24%   | 16200 - 16450   |
| USDMYR | 4.506      | 4.514  | +0.80%   | 4.480 - 4.570   |
| USDPHP | 59.00      | --     | +0.00%   | 58.90 - 59.80   |
| USDTHB | 34.54      | 34.60  | +0.84%   | 34.4 - 35.0     |
| USDVND | 25461      | 25461  | +0.04%   | 25350 - 25600   |

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

## MARKET MOVES

| Bond Yields | 2Y Close | 10Y Close | 2Y Δ (bps) | 10Y Δ (bps) |
|-------------|----------|-----------|------------|-------------|
| UST (US)    | 4.319    | 4.564     | -3.9       | 4.8         |
| JGB (JP)    | 0.589    | 1.063     | 0.4        | -0.1        |
| Bunds (GE)  | 2.045    | 2.303     | 2.1        | 5.9         |
| Gilts (UK)  | 4.419    | 4.578     | -3.8       | 2.1         |
| AGB (AU)    | 3.981    | 4.411     | 11.1       | 13.1        |
| SGS (SG)    | 2.832    | 2.887     | 4.6        | 8.4         |
| CGB (CN)    | 1.126    | 1.746     | -4.1       | -0.7        |
| KGB (KR)    | 2.814    | 2.779     | 5.9        | -3.9        |
| SDL (IN)    | 6.786    | 6.729     | -0.1       | 0.4         |

| Cross FX         | Close (NY) | Open*   | Daily %Δ |
|------------------|------------|---------|----------|
| EUR/JPY          | 163.14     | 163.39  | +1.80%   |
| GBP/JPY          | 196.826    | 197.029 | +1.11%   |
| JPY/SGD (100yen) | 0.865      | 0.8638  | ▼1.74%   |
| JPY/HKD (100yen) | 4.9355     | 4.9285  | ▼1.65%   |
| CNH/JPY          | 21.595     | 21.609  | +2.31%   |
| CNH/HKD          | 1.0653     | 1.065   | ▼0.11%   |
| EUR/GBP          | 0.82889    | 0.82929 | +0.66%   |
| AUD/NZD          | 1.108      | 1.1073  | +0.23%   |
| EUR/CNH          | 7.5742     | 7.5776  | ▼0.12%   |
| GBP/CNH          | 9.1381     | 9.1375  | ▼0.78%   |

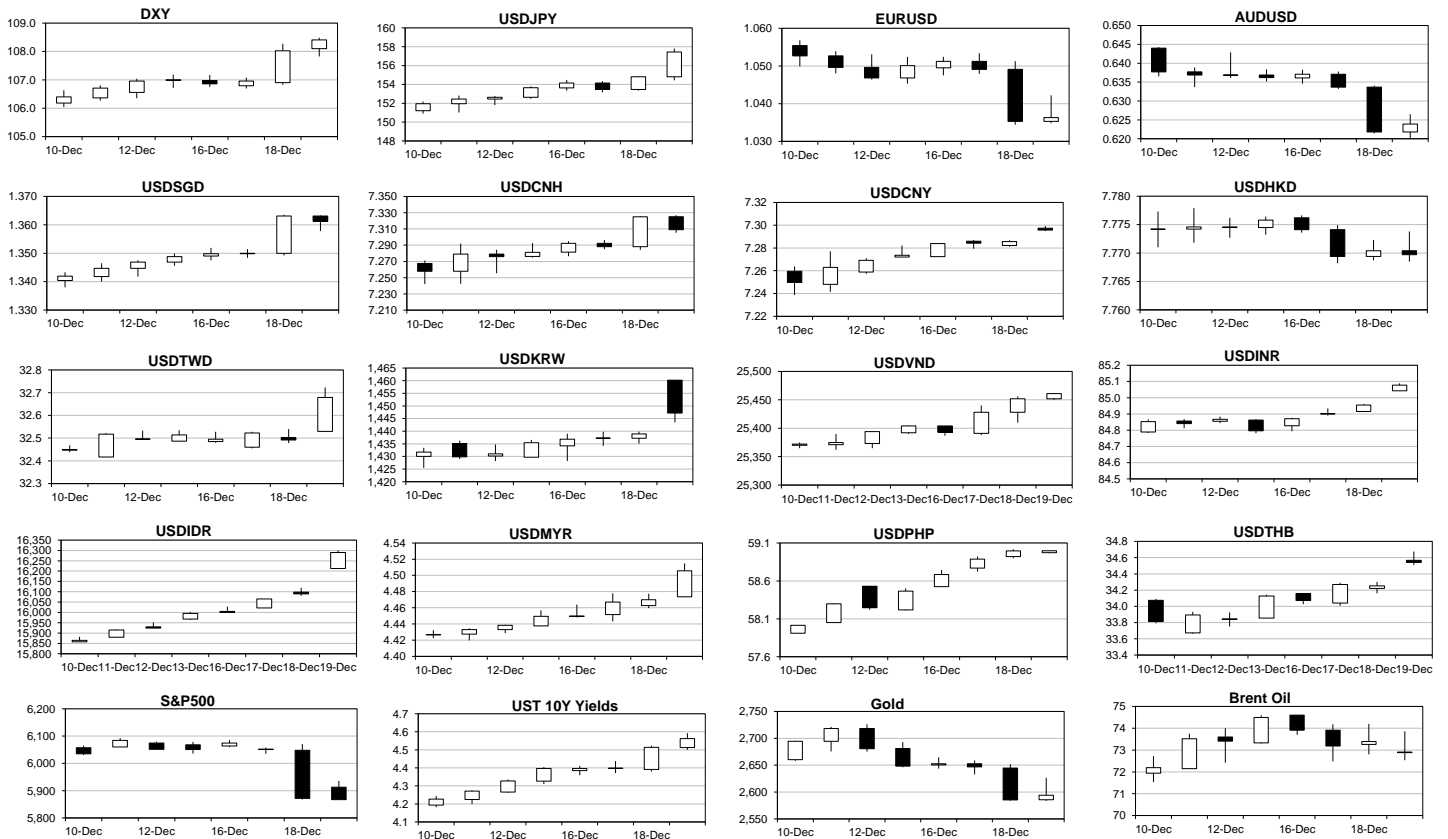
\*Open is as at 8am HKT/SGT.

| G3 Equities  | Close    | Net Chg | Daily %Δ |
|--------------|----------|---------|----------|
| S&P500 (US)  | 5867.08  | -5.08   | ▼0.09%   |
| Nasdaq (US)  | 19372.77 | -19.92  | ▼0.10%   |
| DJIA (US)    | 42342.24 | 15.37   | +0.04%   |
| N225 (JP)    | 38813.58 | -268.13 | ▼0.69%   |
| STOXX50 (EU) | 4879     | -78.28  | ▼1.58%   |

| Asia Equities | Close    | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| ASX (AU)      | 4428.91  | -50.08  | ▼1.12%   |
| STI (SG)      | 3762.88  | -16.74  | ▼0.44%   |
| SHCOMP (CN)   | 3370.033 | -12.18  | ▼0.36%   |
| SZCOMP (CN)   | 2032.849 | 7.32    | +0.36%   |
| HSI (HK)      | 19752.51 | -112.04 | ▼0.56%   |
| SENSEX (IN)   | 79218.05 | -964.15 | ▼1.20%   |
| JSE (ID)      | 6977.238 | -130.64 | ▼1.84%   |
| KLSE (MY)     | 1600.09  | 0.51    | +0.03%   |
| PSE (PH)      | 6395.6   | -73.48  | ▼1.14%   |
| SET (TH)      | 1377.53  | -21.42  | ▼1.53%   |
| VNINDEX (VN)  | 1254.67  | -0.01   | ▼0.89%   |

| Commodity     | Close    | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| COPPER (LME)  | 8,770.41 | -139.13 | ▼1.56%   |
| IRON ORE (CN) | 104.25   | -1.92   | ▼0.41%   |
| GOLD          | 2,594.01 | 8.66    | +0.33%   |
| SILVER        | 29.05    | 0.21    | +0.72%   |
| OIL (BRENT)   | 72.88    | -0.51   | ▼0.69%   |
| OIL (WTI)     | 69.91    | -0.67   | ▼0.95%   |
| NATURAL GAS   | 3.58     | -0.30   | ▼1.03%   |

## CHARTS



## RESEARCH TEAM

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