

Dec 23, 2024

Three Take-Aways

1) Indications of softer growth and dis-inflation progress gave some confidence that cuts may proceed as scheduled; markets now pricing 2 cuts in 2025.

2) JPY carry trades remain in play on entrenched Fed-BoJ wedge and "capital loss" mitigated by Trump 2.0 and US exceptionalism.

3) Dovish inclinations by EM Asia central banks risk being stifled by Fed/Trump/USD headwinds alongside geo-political uncertainties.

MACRO THEME: Some Comfort?

- Indications of softer growth, dis-inflation progress and mixed FedSpeak gave some confidence that the Fed may stick to the plan set out in the Dot Plot.

- Manufacturing activity and consumer spending registered softer-than-expected growth while PCE deflator - the Fed's preferred inflation gauge, printed to the downside. FedSpeak also mostly stuck to the same script as FOMC. Fed Daly expressed that she was "very comfortable" with two cuts next year, emphasizing the central bank can turn to a slower approach, Fed Goolsbee said that rate path down is a little bit more shallow in 2025, while Fed Williams noted that many uncertainties lay ahead. Fed Hammack, the sole dissenter at last week's FOMC preferring a hold, remarked that the Fed was not far from neutral, and would prefer to hold policy steady until there was further dis-inflation progress.

- Fed Funds Futures are now pricing the next cut by Fed in June, from July a day prior. In addition, markets are now pricing 2 cuts next year, compared to fewer than 2 cuts post-FOMC.

Yields (2Y: -0.7bp; 10Y: -4.1bp, 30Y: -1.6bp)

- UST yields fell.

Equities (Nasdaq: +1.0%; S&P: +1.1%; Dow: +1.2%)

- US equities climbed.

FX (DXY: -0.7%)

- The USD weakened against G10 currencies. EUR moved above 1.04 while AUD traded higher to above mid-62 cents. USD/JPY dipped to around mid-156 levels. Elsewhere, USD/SGD moved below 1.36 handle.

China: Underperformance

- Chinese equities underperformed US peers (Nasdaq Golden Dragon Index: +0.5%).

Why the BoJ Must Endure JPY Carry Risk

- Despite higher volatility that typically deters carry trades, **JPY carry trade is far from being dead** and buried.

- **First**, because "Trump 2.0" is a JPY suppressant, despite being a source of uncertainty-volatility. So aspect of it accentuates the allure of JPY-funding. Specifically, **adverse global trade impact from Trump 2.0 tariffs will, all else equal, compromise the JPY.**

- And so, the probability of sharp JPY strength from market-driven volatility amidst Trump 2.0 is meaningfully diminished.

- **Second**, the shifts in Fed-BoJ policy divergence are now more likely to **weaken the JPY** (boost, not drag the USD/JPY). The Fed has turned markedly less dovish, on "Trump 2.0" boost to US exceptionalism, while the BoJ is justifiably less hawkish given adverse exports risks from Trump 2.0 tariffs.

- And so, **JPY carry trades could remain** in play on two critical counts;

i) First, as **entrenched Fed-BoJ wedge keeps "carry" returns underpinned** (delaying and diminishing the decay of "carry spread" and;

ii) Second, as **disproportionate "capital loss"** (from sharp JPY squeeze), which is ordinarily an effective deterrent for carry trades, is **effectively mitigated by the peculiarities of Trump 2.0 volatility and US exceptionalism** (at Japan's expense weighing on JPY).

Post-EM Asia Central Banks: Tortured Doves?

- In contrast to Fed the passive hawk, **EM Asia central banks last week appeared more like tortured doves faced with tough choices on spillovers from the US, while domestic risks are not giving a leg-up.**

- **Bank Indonesia** is perhaps the prime example, **holding rates on IDR concerns even as it continued to look for room to ease.** IDR weakness in recent weeks have seen BI intervening in FX markets, and even commenting that it will guard the rupiah "boldly". The next easing appears distant for BI insofar as USD strength holds up, especially as Fed's hawkish pivot likely caught BI by surprise. We now expect the next BI cut to be in Q2'25, with possibility of further delay to Q3'25.

- Meanwhile, even as **BSP cut by 25bps and retained its easing bias, signs of stress are showing, with BSP commenting that it was concerned about pass-through from weak PHP.** In addition, BSP remarked that 100bps of cuts in 2025 may be a bit too much, which may suggest more measured pace of easing in 2025.

- **CBC kept rates unchanged** and highlighted US tariff impact as the main uncertainty in 2025. Even as CBC expressed that recent housing curbs were yielding some effect, we think CBC will be cautious and would wait until Q2'25 to ease unless there is a material tariff directly being imposed on Taiwan.

- **Bank of Thailand proceeded with a dovish hold**, largely motivated by a wait-and-see approach on the debt alleviation programme. Nonetheless, a hold in the face of THB headwinds and questions on BoT's independence is helpful. But to be clear, further rate cuts are not ruled out in Q1 2025 with the BoT's press conference reminding us that neutral rates should perhaps be viewed as a "zone" rather than a point estimate.

- In essence, the economic need and desire for EM Asia central banks to indulge in dovish moves will be tortured (and in some cases significantly stifled) by Fed/Trump/USD headwinds alongside geo-economic uncertainties.

DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(CH) 1Y/5Y Prime Rate	3.10%/3.60%	3.10%/3.60%	3.10%/3.60%
(KR) PPI YoY (Nov)	1.4%	--	1.0%
(MY) CPI YoY (Nov)	1.8%	2.1%	1.9%
(TW) Export Orders (Nov)	3.3%	6.6%	4.9%
(US) PCE/Core Deflator YoY (Nov)	2.4%/2.8%	2.5%/2.9%	2.3%/2.8%
(US) Personal Income/Spending (Nov)	0.3%/0.4%	0.4%/0.5%	0.6%/0.4%
(US) Kansas City Fed Mfg Activity (Dec)	-4	-1	-2
(EZ) Consumer Confidence (Dec P)	-14.5	-14.0	-13.8%
(JP) Natl CPI YoY (Nov)	2.9%	2.9%	2.3%
Today			
(SG) CPI/Core YoY (Nov)		1.8%/2.1%	1.4%/2.1%
(TW) Unemployment Rate (Nov)		3.4%	3.4%
(TW) Industrial Production YoY (Nov)		--	8.9%
(US) Chicago Fed Nat Activity Index (Nov)		--	-0.4
(US) Conf. Board Consumer Confidence (Dec)		113.0	111.7

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	156.31	156.55	▼0.72%	154.00 - 158.00
EURUSD	1.0430	1.0433	+0.65%	1.0340 - 1.0520
GBPUSD	1.2570	1.2570	+0.54%	1.2480 - 1.2700
AUDUSD	0.6251	0.6253	+0.19%	0.6190 - 0.6320
DX	107.6	--	▼0.73%	107.0 - 108.5
USDCNY	7.2954	--	▼0.01%	7.2800 - 7.3300
USDCNH	7.2924	7.2899	▼0.23%	7.2700 - 7.3300
USDHKD	7.7757	7.7730	+0.08%	7.7500 - 7.7900
USDSGD	1.3559	1.3555	▼0.40%	1.3460 - 1.3660
USDKRW	1448	1445	+0.00%	1435 - 1460
USDTWD	32.70	--	+0.07%	32.50 - 32.90
USDINR	85.02	--	▼0.07%	84.80 - 85.30
USDIDR	16195	--	▼0.58%	15950 - 16300
USDMYR	4.506	4.505	+0.01%	4.470 - 4.540
USDPHP	58.80	--	▼0.33%	58.50 - 59.20
USDTHB	34.47	34.29	▼0.20%	34.1 - 34.8
USDVND	25455	25451	▼0.02%	25400 - 25500

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.312	4.523	-0.7	-4.1
JGB (JP)	0.569	1.051	-2.0	-1.2
Bunds (GE)	2.024	2.283	-2.1	-2.0
Gilts (UK)	4.344	4.509	-7.5	-6.9
AGB (AU)	3.983	4.495	0.2	8.4
SGS (SG)	2.859	2.946	3.4	5.8
CGB (CN)	1.064	1.708	-6.3	-3.8
KGB (KR)	2.874	2.779	-1.6	-0.7
SDL (IN)	6.789	6.731	1.1	-2.0

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	163.12	163.3	▼0.01%
GBP/JPY	196.647	196.745	▼0.09%
JPY/SGD (100yen)	0.8663	0.8659	+0.15%
JPY/HKD (100yen)	4.9713	4.9659	+0.73%
CNH/JPY	21.394	21.459	▼0.93%
CNH/HKD	1.0651	1.0657	▼0.02%
EUR/GBP	0.8297	0.83003	+0.10%
AUD/NZD	1.1062	1.1065	▼0.16%
EUR/CNH	7.6089	7.6056	+0.46%
GBP/CNH	9.167	9.163	+0.32%

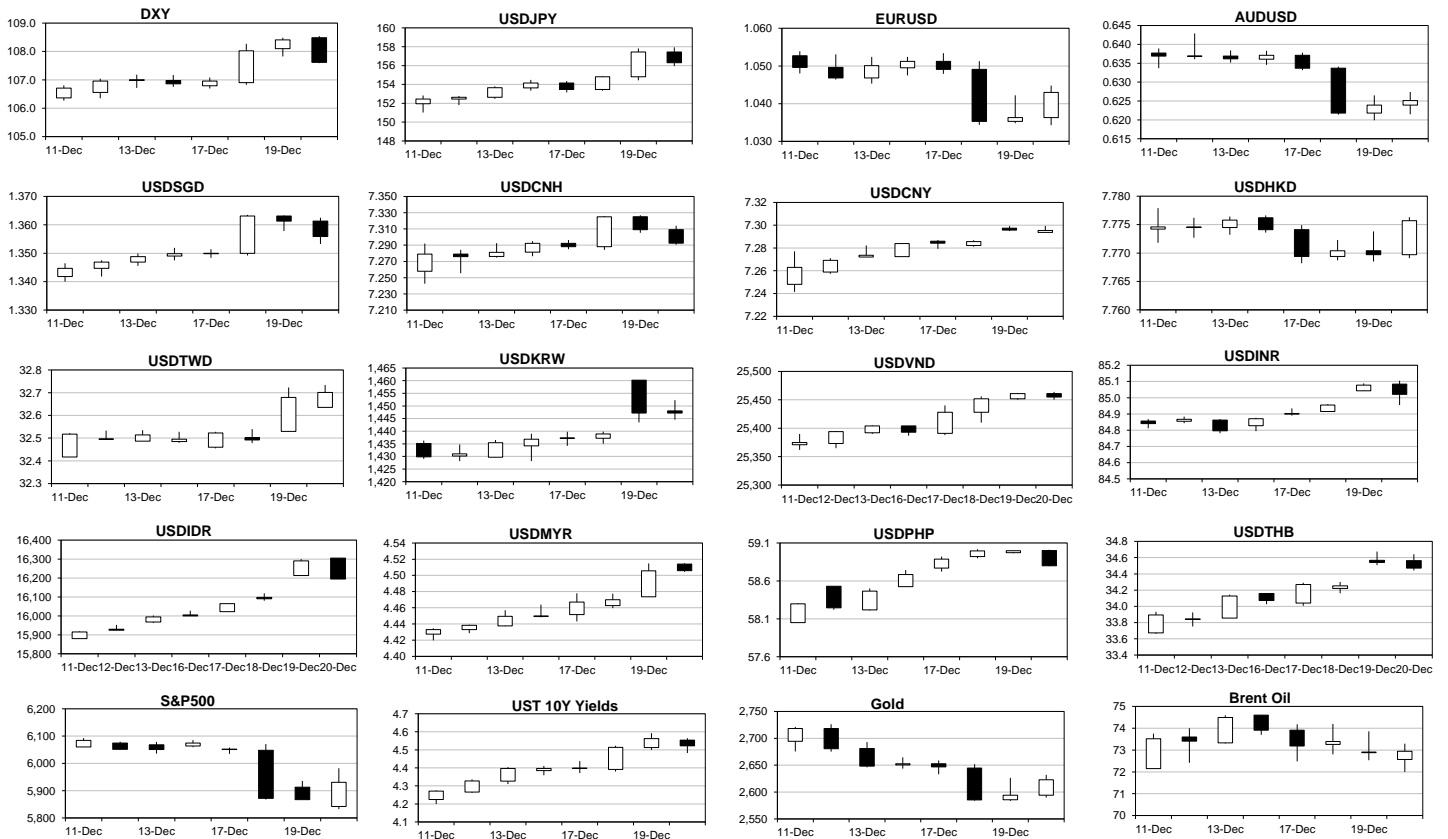
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5930.85	63.77	+1.09%
Nasdaq (US)	19572.6	199.83	+1.03%
DJIA (US)	42840.26	498.02	+1.18%
N225 (JP)	38701.9	-111.68	▼0.29%
STOXX50 (EU)	4862.28	-16.72	▼0.34%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4421.11	-7.80	▼0.18%
STI (SG)	3719.93	-42.95	▼1.14%
SHCOMP (CN)	3368.069	-1.96	▼0.06%
SZCOMP (CN)	2041.891	9.04	+0.44%
HSI (HK)	19720.7	-31.81	▼0.16%
SENSEX (IN)	78041.59	-1176.46	▼1.49%
JSE (ID)	6983.865	6.63	+0.09%
KLSE (MY)	1591.41	-8.68	▼0.54%
PSE (PH)	6406.38	10.78	+0.17%
SET (TH)	1365.07	-12.46	▼0.90%
VNINDEX (VN)	1257.5	0.00	+0.23%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,832.85	62.44	+0.71%
IRON ORE (CN)	103.79	-1.27	▼0.44%
GOLD	2,622.91	28.90	+1.11%
SILVER	29.52	0.16	+4.58%
OIL (BRENT)	72.94	0.06	+0.08%
OIL (WTI)	69.46	-0.45	▼0.64%
NATURAL GAS	3.75	0.47	+1.62%

CHARTS



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