

Dec 24, 2024

*This is the last Daily for the year. Publication will resume on 6 January 2025 (Monday).

Three Take-Aways

- 1) “Santa rally” preoccupation misses the viability of enduring exuberance.
- 2) Rising yields defying Fed cuts and uncertainty underscore policy tensions and geo-economic risks.
- 3) China’s stimulus shortfall is the predominant pre-existing risk ahead of Trump 2.0.

MACRO THEME: Exceptional(ism) & Exuberant

- At first glance, **markets** appear to suggest **exceptional exuberance** that has presided over 2024. US equities are up ~25% led by 32% tech (Nasdaq) rallies, with just fewer than 7 trading days left (today is shortened equity market trades in US). Notably, **US bulls high on (increasingly stark) American exceptionalism have not trampled on ebullience** (albeit relatively more modest) elsewhere.

- Europe, for all its travails, put out over 7% gains.
- The Nikkei and Hang Seng have surged around 17%.
- And even Chinese equities (CSI 300) have rallied 14-15%.

- What’s **remarkable** is that the **S&P500 bull run of 2024** is littered with **57 record highs** for the year. **Not the greatest number of records** within a year by any measure. *But remarkable*, nonetheless. Especially *considering highly volatile policy expectations and precarious geo-politics*. In fact, it is an **exceptional bull market** (of this magnitude) once wider markets are taken into consideration. Specifically, in **defying a sharp rise in UST yields to surge (well) over 20%**. Whereas, **in the last 40 years** (since 1985), **rallies in excess of 20% have typically coincided** with significant softer yields*. Now the **harder question is whether exceptionalism** (and **attendant exuberance**) **will prove durable**.

* On average, the 12 instances[^] of >20% S&P500 rallies are broadly (but conservatively**) 2Y yields that are ~70bp lower and 10Y yields down ~40bp.

[^] (1985, 1989, 1991, 1995-1998, 2003, 2009, 2013, 2019, 2021 & 2023)

** And if post-crisis instance of snap-back (of 2003, 2009 and 2021) are excluded, bull markets coincide with 2Y yields lower by 87bp and 10Y softer by 67bp.

Will Santa Survive Altitude Sickness?

- More imminently, the **fashionable (albeit shallow) question is whether a “Santa rally” will be the cherry on top if this cake**. And critical context for “Santa-bulls”, is **whether after the exhilarating year of multiple record highs, the bar is now set higher or the benefit of tailwinds are retained**. In other words, **will euphoria feed into itself, or will caution creep in?**

- Strictly speaking, the time frame over which the **so-called Santa rally** is assessed is the 7 trading-day period comprising the last 5 trading days of the year (2024) and the first 2 of the following year (2025). That’s to say, 27th through 31st December and 2nd through 3rd January 2025. So, the jury is very much still out on the prospects of a “Santa rally” being pulled off. Regardless (of solid gains for the quarter and year^{^^}), **December’s wobbles** (S&P500 down 1%) **warn of altitude sickness, if not outright caution**.

DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(SG) CPI/Core YoY (Nov)	1.6%/1.9%	1.8%/2.1%	1.4%/2.1%
(TW) Unemployment Rate (Nov)	3.4%	3.4%	3.4%
(TW) Industrial Production YoY (Nov)	10.3%	8.9%	8.8%
(US) Chicago Fed Nat Activity Index (Nov)	-0.1	-0.2	-0.5
(US) Consumer Confidence (Dec)	104.7%	113.2	112.8

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- Point being, **with valuations so rich and uncertainty almost as elevated as valuations, the temptation to take profits will rise**. So even if a “Santa rally” is pulled off, it proves nothing conclusively, other than opportunism.

^{^^} S&P500 (Nasdaq) is up 3.7% (8.7%) QTD and 25.3% (31.7%) YTD (as at 23 Dec).

An Atypical Easing Cycle

- What’s more, the fact that this is a **highly atypical rate cut cycle** is also **discomforting** (given the uncertainties), **if not worrying** (given the risks). Specifically, a fairly significant **lift in yields have defied a 100bp of Fed rate cuts**.

- For the record, **2Y yields have risen 9bp** (from elevated levels (and hence, currently at 4.33%) while **10Y yields are up 70bp** (at 4.58%). This is **starkly at odds with the “usual” downside in yields over past Fed cut cycles**. Point being, the **evidence from 9 years out of the last 40 years** (since 1985), **in which the Fed cut by at least 50bp**, is that every bp of rate cut has a 91% (63%) pass-through to 2Y (10Y) yields. In other words, **for every 100bp of rate cut 2Y yields have typically fallen 91bp and 10Y yields by 63bp**. But **instead of a “bull steepener”**, markets are confronted by a bear steepening, which **risks being highly restrictive for the global economy**. More so, if global fiscal positions are forced into tightening in the context of wider reckoning of public-sector indebtedness.

- Admittedly, it is hasty to conclude that this atypical easing cycle is necessarily an ominous sign rather than a quirk of optimism (and US exceptionalism). But suffice to say that the **unfamiliar territory ought to counsel a bit more caution not cavalier disregard**.

The China Conundrum

- Meanwhile, **China’s slump in CGB yields, which to be fair squares with easier monetary policy, is paradoxically a source of consternation for a dovish PBoC**. This merely **underlines a greater “China conundrum”** that confronts Beijing; and could remain a headwind. There are **two key aspects** to this conundrum.

- **One** is the frustrations associated with the futility of “**pushing on a string**”. This gets to the heart of the **deflation-confidence deficit spiral** that **continues to stymie Beijing’s stimulus efforts** – which thus far are still closer to “too little too late” territory. Inextricably linked are a **falling (and flattening) CGB yield curve impacting banks profitability, frustrating already compromised credit push** (amid a triple whammy of **demand, supply** and **intensity**).

- What’s more, **problematic adverse feedback loops** between **real estate, local governments** and **banks** reveals the **limitations, if not fallacy, of filling one hole with another**. Upshot is, short of a “blank cheque” (admittedly at risk of “moral hazard”) from the central government willing to pull out more stops for private sector developers,

- The **other** is the **sharp trade-off between stimulus and stability**. This entails sharpening **trade-off between PBoC stimulus** and; **i) a stable RMB** (sharpened by a less dovish Fed) and; **ii) latent** (albeit longer horizon) **financial stability**. The upshot is that hopes of low-hanging gains from stimulus are misplaced; which means Beijing has its work cut out. And that is even before the unwelcome trade headwinds threatened by Trump 2.0 tariffs.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	157.17	157.19	+0.55%	155.00 - 160.00
EURUSD	1.0405	1.0405	▼0.24%	1.0300 - 1.0500
GBPUSD	1.2536	1.2533	▼0.27%	1.2400 - 1.2650
AUDUSD	0.6249	0.6244	▼0.03%	0.6180 - 0.6300
DX	108.0	--	+0.39%	107.4 - 108.8
USDCNY	7.2960	--	+0.01%	7.2800 - 7.3300
USDCNH	7.3072	7.3088	+0.20%	7.2800 - 7.3300
USDHKD	7.7702	7.7702	▼0.07%	7.7500 - 7.7900
USDSGD	1.3574	1.3573	+0.11%	1.3480 - 1.3660
USDKRW	1453	1452	+0.00%	1440 - 1465
USDTWD	32.70	--	▼0.01%	32.60 - 32.90
USDINR	85.12	--	+0.11%	84.90 - 85.30
USDIDR	16175	--	▼0.12%	16000 - 16300
USDMYR	4.490	4.490	▼0.35%	4.460 - 4.530
USDPHP	58.46	--	▼0.59%	58.20 - 59.00
USDTHB	34.21	34.29	▼0.75%	34.0 - 34.6
USDVND	25450	25446	▼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)	4.342	4.588	3.0	6.5
JGB (JP)	0.575	1.059	0.6	0.8
Bunds (GE)	2.051	2.320	2.7	3.7
Gilts (UK)	4.379	4.545	3.5	3.7
AGB (AU)	3.926	4.405	-5.7	-9.0
SGS (SG)	2.858	2.953	-0.1	0.7
CGB (CN)	1.042	1.691	-2.2	-1.7
KGB (KR)	2.848	2.736	5.4	3.0
SDL (IN)	6.774	6.719	0.7	0.6

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	163.53	163.46	+0.25%
GBP/JPY	197.005	196.895	+0.18%
JPY/SGD (100yen)	0.8636	0.8636	▼0.31%
JPY/HKD (100yen)	4.9441	4.946	▼0.55%
CNH/JPY	21.536	21.544	+0.66%
CNH/HKD	1.065	1.0653	▼0.01%
EUR/GBP	0.83008	0.83017	+0.05%
AUD/NZD	1.1062	1.1058	+0.00%
EUR/CNH	7.6038	7.6044	▼0.07%
GBP/CNH	9.1609	9.1601	▼0.07%

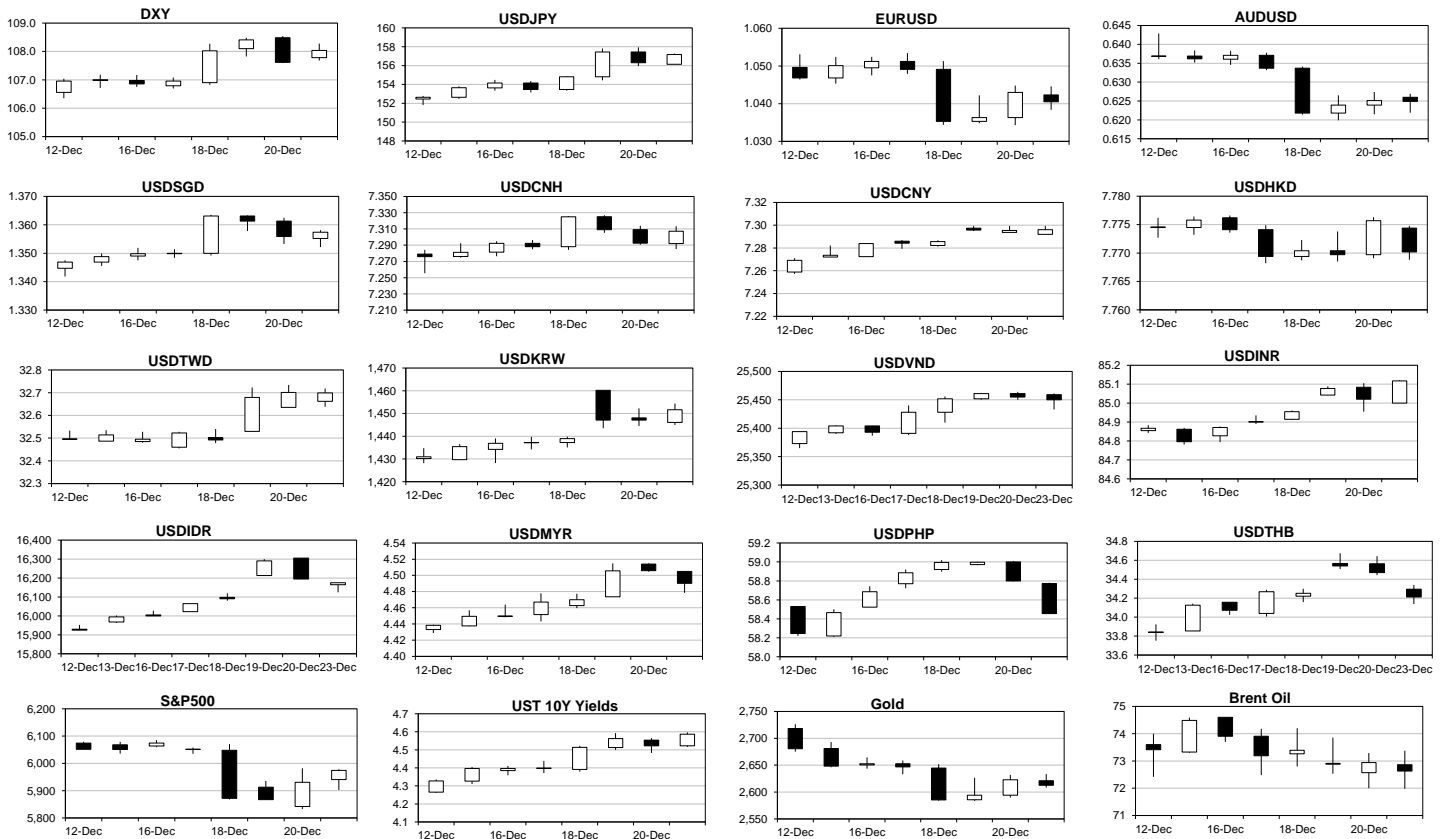
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5974.07	43.22	+0.73%
Nasdaq (US)	19764.88	192.28	+0.98%
DJIA (US)	42906.95	66.69	+0.16%
N225 (JP)	39161.34	459.44	+1.19%
STOXX50 (EU)	4852.93	-9.35	▼0.19%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4428.73	7.62	+0.17%
STI (SG)	3752.33	32.40	+0.87%
SHCOMP (CN)	3351.257	-16.81	▼0.50%
SZCOMP (CN)	1995.096	-46.80	▼2.29%
HSI (HK)	19883.13	162.43	+0.82%
SENSEX (IN)	78540.17	498.58	+0.64%
JSE (ID)	7096.445	112.58	+1.61%
KOLSE (MY)	1596.2	4.79	+0.30%
PSE (PH)	6534.91	128.53	+2.01%
SET (TH)	1386.91	21.84	+1.60%
VNINDEX (VN)	1262.76	0.00	+0.42%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,801.52	-31.33	▼0.35%
IRON ORE (CN)	103.95	-1.71	+0.15%
GOLD	2,612.56	-10.35	▼0.39%
SILVER	29.65	-0.09	▼2.45%
OIL (BRENT)	72.63	-0.31	▼0.43%
OIL (WTI)	69.24	-0.22	▼0.32%
NATURAL GAS	3.66	0.13	+0.44%

CHARTS



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