

**MARKET SUMMARY**

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	143.40	144.63	+1.34	+3.22
EUR	1.0937	1.0945	+0.0023	▼0.0116
AUD	0.6753	0.6707	▼0.0025	▼0.0123
SGD	1.3277	1.3293	+0.0006	+0.0090
CNY	7.1517	7.1608	+0.0114	+0.0504
INR	83.25	83.23	▼0.06	+0.06
IDR	15501	15490	+10	+70
MYR	4.6362	4.6350	+0.0022	+0.0260
PHP	55.49	55.50	▼0.08	+0.01
THB	34.48	34.45	+0.12	+0.31

\*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.999%	+8.3 bp	+15.5 bp
JPY (10YR)	0.615%	+0.1 bp	+2.0 bp
EUR* (10YR)	2.124%	+10.0 bp	+18.0 bp
AUD (5YR)	3.735%	+0.1 bp	+14.2 bp
SGD (5YR)	2.678%	▼8.2 bp	+0.6 bp
CNY (5YR)	2.399%	▼1.0 bp	▼0.2 bp
INR (5YR)	7.131%	+0.2 bp	▼3.5 bp
IDR (5YR)	6.616%	▼1.2 bp	+15.5 bp
MYR (5YR)	3.626%	+2.4 bp	+5.2 bp
PHP (5YR)	5.901%	▼0.4 bp	+13.2 bp
THB (5YR)	2.491%	▼0.8 bp	+2.4 bp

\* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	37,440.34	+0.03%	▼0.72%
N225 (JP)	33,288.29	▼0.53%	▼0.75%
STOXX 50 (EU)	4,474.01	+0.58%	▼0.89%
ASX (AU)	4,217.03	+0.48%	▼0.26%
STI (SG)	3,174.01	▼0.79%	▼1.26%
SHCOMP (CN)	2,954.35	▼0.43%	▼0.01%
SENSEX (IN)	71,847.57	+0.69%	▼0.78%
JSE (ID)	7,359.76	+1.11%	+0.77%
KLSE (MY)	1,477.26	+1.02%	+1.36%
PSE (PH)	6,602.52	+1.59%	+1.28%
SET (TH)	1,434.59	+0.35%	+1.32%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	265.00	▲0.10%	▲0.52%
COPPER (LME)	8,367.80	▲0.60%	▲1.90%
IRON ORE (CN)	142.26	▲0.93%	+4.37%
GOLD	2,043.65	+0.11%	▲1.06%
OIL (WTI)	72.19	▼0.70%	+0.59%

**Three Take-aways:**

- 1) US labour data further checked "pivot bulls" in caution ahead of non-farm payrolls tonight.
- 2) Disrupted Libyan oil supply and persistent global shipping issues pose further threat to EM-Asia FX.
- 3) Amid risk of unwanted credit build-up and currency stability concerns, PBoC faces restraints on easing.

**Disruptions**

- The USTs sell off continued and US equities lost further ground as markets continued to pare back rate cut bets with odds of a March rate cut dipping below a two-thirds chance.

- This was on the back of signals of a resilient labour market as initial jobless claims came in below expectations alongside robust ADP employment change. Put simply, the data disrupted the narrative of a need for deep rate cuts by the Fed. Consequently, UST yield curve bear steepened as 2Y yields rose 5.4bps and 10Y UST yields soared 8.3bp as it tested the 4% mark.

- Broadly, the USD retained traction on elevated UST yields. JPY underformed G10 peers as the USD/JPY rose above mid-144. As for the EUR, it rose marginally to hover around mid-1.09 as a resurgence of headline inflation in Germany buoyed EZ bond yields. Notably, this was despite the fact that much of this spike was a result of low base effects from a year ago. This also perhaps underscored that the threat from oil prices and other cost concerns have far from abated.

- While Brent Crude prices may have slipped back below US\$78/barrel on rising gasoline and distillate stockpiles in the US, the actual production disruption in Libyan oil fields and on-going attacks in the Red Sea disrupting trade routes already impose tangible cost (such as rising insurance premiums) on top of risks of a wider conflict spillover.

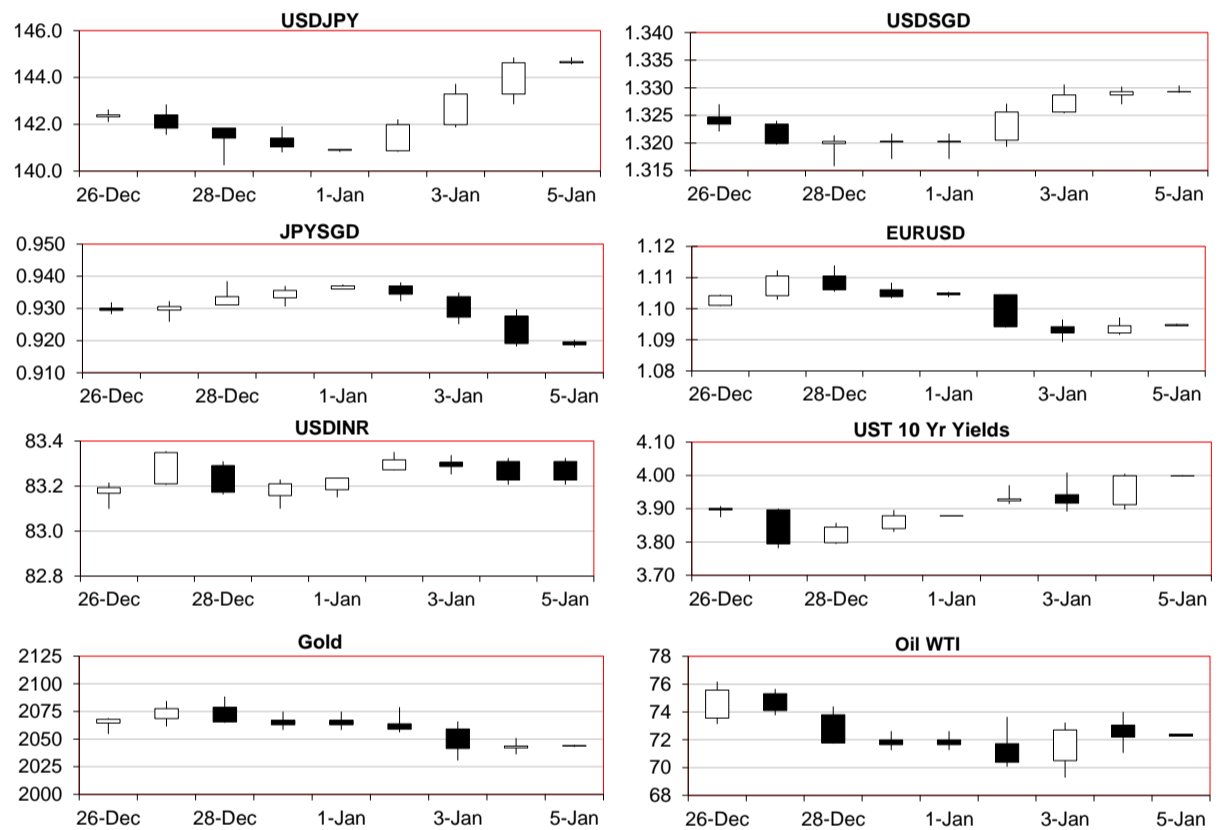
- In EM-Asia FX, the THB recovery will be wary of disruptions from the elevated energy and freight cost (Baltic dry index is up more than 80% on a YoY basis as Panama Canal drought restrain vessel traffic) on top of on-going fiscal concerns surrounding their 2024 budget. In contrast, rising freight revenues may assist Korean shippers and marginally dampen KRW slippages. Down Under, AUD slipped towards 67 cents alongside a weaker CNH despite a rather upbeat print on the Caixin services PMI.

**China's Policy Paradox**

- China suffers a different variety of a similar policy restraint; of pivot bets checked.

**OVERNIGHT RESULTS**

(CH) Caixin PMI - Svcs/Comp. (Dec): 52.9/52.6 (Mkt: 51.6/-; Nov: 51.5/51.6) | (EZ) PMI - Svcs/Comp. (Dec F): 48.8/47.6 (Prelim: 48.1/47.0) | (US) ADP Employment Chg (Dec): 164k (Mkt: 125K; Nov: 103K) | (US) Initial Jobless Claims (30-Dec): 202k (Mkt: 216K; Prev wk: 218K)

**Past Two Weeks Movement**

**TODAY'S COMMENTS & FORECAST**
**Open**

USD/JPY	144.77	EUR/USD	1.0947
USD/SGD	1.3295	USD/THB	34.53
JPY/SGD	0.9183	USD/MYR	4.634

**Forecast**

USD/JPY	143.50 - 145.00
EUR/USD	1.0870 - 1.0980
AUD/USD	0.6680 - 0.6780
USD/SGD	1.3240 - 1.3320
JPY/SGD	0.9131 - 0.9282
USD/CNH	7.1500 - 7.1850
USD/INR	83.20 - 83.50
USD/IDR	15430 - 15550
USD/MYR	4.630 - 4.658
USD/PHP	55.40 - 55.88
USD/THB	34.28 - 34.62

**Today's Direction**

	Bull	Bear
USD/SGD	5	1
USD/JPY	5	1

- Specifically, China's policy paradox is that in spite of deflation and a conspicuous absence of demand-pull dynamics underlining flagging growth momentum, the PBoC has its hands tied.

- And this is not due to the technical limitation of policy.

- In fact, the PBoC has at its disposal, by any gauge, an abundance of "dry gunpowder".

- It has neither hit the traditional zero bound (which is in any case now overthrown by an era of negative rates) of policy rate limitations on its wide range of rate tools;

- nor has it in any deliberate and dedicated fashion employed balance sheet tools (be it broad-based QE-type bond purchases or more targeted balance sheet expansion).

- Nonetheless, the PBoC's limitations, of which there are two main dimensions, are binding.

- First, is all manner of credit constraint. In particular, risks associated with a sharp, post-Lehman build-up of leverage compounded by mis-allocation.

- This not only dampens credit intensity, which diminishes policy efficacy and in turn dims the benefit-cost ratio of easing, but also accentuates financial (in)stability threats.

- Compelling incentives/imperative to avert a "Minsky moment" (credit-asset implosion) that could set off a prolonged "balance sheet recession", underpin one dimension of PBoC restraint.

- Second, pertains to the currency. Excessive policy easing has adverse impact on CNY, exacerbated by confidence deficit that amplifies capital outflows from rate differentials.

- And perversely, destabilizing CNY dynamics could tip a slow burn economic slowdown into financial meltdown that triggers a crash. Fact is, CNY stability is necessarily a competing, and arguably more urgent/important, objective that supplants policy easing.

- Upshot being, the overarching paradox is less that the PBoC must exercise restraint despite economic headwinds and more that well-intended easing could backfire horribly.

**FX Daily Outlook**

- EUR/USD: EZ inflation unable to assist EUR to durably surmount 1.10 amid elevated UST yields.

- USD/JPY: Buoyancy above mid-143 set to persist amid potential for further unwinding of pivot bets.

- USD/SGD: Consolidation on both sides of 1.33 as USD retains traction.

- AUD/USD: Sub-67 cent slippage par for the course heading into NFP print as China worries linger.

**TODAY'S EVENTS**

(JP) PMI - Services (Dec F): (Nov: 52.0) | (PH) CPI YoY (Dec): (Mkt: 3.9%; Nov: 4.1%) |

(TH) CPI/Core YoY (Dec): (Mkt: -0.4%/0.6%; Nov: -0.4%/0.6%) | (TW) CPI/Core YoY (Dec): (Mkt: 2.7%/2.3%; Nov: 2.9%/2.4%) |

(SG) Retail Sales/Ex Auto (Nov): (Mkt: 2.2%/-; Oct: -0.1%/-1.0%) | (EZ) CPI/Core YoY (Dec): (Mkt: 3.0%/3.4%; Nov: 2.4%/3.6%) |

(US) Change in Nonfarm Payrolls (Dec): (Mkt: 171k; Nov: 199k) | (US) Unemployment Rate (Dec): (Mkt: 3.8%; Nov: 3.7%) |

(US) Durable Goods/Nondef Ex Air Orders (Nov F): (Mkt: 5.4%/-; Prelim: 5.4%/0.8%) |

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