

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	144.42	144.23	▼0.40	+3.34
EUR	1.0945	1.0950	+0.0007	▼0.0095
AUD	0.6705	0.6720	+0.0007	▼0.0093
SGD	1.3307	1.3281	▼0.0015	+0.0078
CNY	7.1585	7.1514	+0.0043	+0.0514
INR	83.08	83.14	▼0.03	▼0.10
IDR	15529	15525	+10	+128
MYR	4.6488	4.6515	▼0.0038	+0.0575
PHP	55.70	55.70	+0.12	+0.31
THB	34.95	35.03	+0.31	+0.89

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.031%	▼1.5 bp	+15.1 bp
JPY (10YR)	0.610%	+0.0 bp	▼0.4 bp
EUR* (10YR)	2.136%	▼2.0 bp	+11.2 bp
AUD (5YR)	3.842%	+3.6 bp	+20.6 bp
SGD (5YR)	2.718%	+2.1 bp	+4.1 bp
CNY (5YR)	2.399%	+1.3 bp	+0.5 bp
INR (5YR)	7.120%	▼3.4 bp	▼1.8 bp
IDR (5YR)	6.630%	▼1.7 bp	+18.6 bp
MYR (5YR)	3.626%	▼1.1 bp	+5.5 bp
PHP (5YR)	5.914%	▼0.1 bp	+10.5 bp
THB (5YR)	2.491%	▼1.5 bp	+2.4 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	37,683.01	+0.58%	▼0.02%
N225 (JP)	33,377.42	+0.00%	▼0.26%
STOXX 50 (EU)	4,485.48	+0.49%	▼0.80%
ASX (AU)	4,204.14	+0.19%	▼0.66%
STI (SG)	3,187.02	+0.09%	▼1.64%
SHCOMP (CN)	2,887.54	▼1.42%	▼2.94%
SENSEX (IN)	71,355.22	▼0.93%	▼1.27%
JSE (ID)	7,283.58	▼0.91%	+0.15%
KLSE (MY)	1,495.70	+0.54%	+2.82%
PSE (PH)	6,609.22	▼0.31%	+2.47%
SET (TH)	1,418.45	▼0.67%	+0.18%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	261.65	▲1.60%	▲0.83%
COPPER (LME)	8,339.69	▲0.25%	▲1.47%
IRON ORE (CN)	139.66	▲0.46%	#VALUE!
GOLD	2,028.07	▲0.85%	▲1.69%
OIL (WTI)	70.77	▼4.12%	#VALUE!

TODAY'S COMMENTS & FORECAST

Open

USD/JPY	144.23	EUR/USD	1.0950
USD/SGD	1.3287	USD/THB	34.97
JPY/SGD	0.9213	USD/MYR	4.651

Forecast

USD/JPY	143.00 - 144.70
EUR/USD	1.0880 - 1.1000
AUD/USD	0.6640 - 0.6750
USD/SGD	1.3240 - 1.3340
JPY/SGD	0.9150 - 0.9329
USD/CNH	7.1400 - 7.1900
USD/INR	82.90 - 83.30
USD/IDR	15430 - 15550
USD/MYR	4.630 - 4.661
USD/PHP	55.30 - 55.80
USD/THB	34.40 - 35.50

Today's Direction

	Bull	Bear
USD/SGD	4	3
USD/JPY	4	3

Three Take-aways:

- 1) Amid lower inflation expectations, equities recovery is likely a brief respite from recent selloff.
- 2) Risk outlook remains bumpy as deep Fed rate cuts would likely be due to adverse shocks.
- 3) Any PBoC's RRR cuts not panacea for property-induced financial stress and confidence deficit.

Brief Respite

- Yesterday's equities rally (S&P500: +1.4%; Dow: +0.6%; NASDAQ: +2.2%) was reminiscent of the "Santa rally" seen last month, as confidence on the immaculate dis-inflation process imparted confidence to pivot-led "risk on" mood. NY Fed 1Y inflation expectations was lowered to 3.0% in Dec from 3.4% a month ago. 2Y UST yields fell 0.6bp, while 10Y fell 1.5bp.

- This is however, **at best, a brief respite, (instead of the start of another party)** as bulk of rate-cut expectations were likely front-loaded last year-end. Equities remain lower YTD, with 2Y and 10Y yields 12bps and 15bps higher since the turn of the year, respectively.

- Meanwhile, **Brent fell >3%** to below mid-\$76/bbl following Saudi Aramco's price cuts on weak demand. Reports that some shipping firms made a deal with Houthi militants to get for a safe passage through the Red Sea also failed to provide support.

- Oil losses spillovered to the NOK, which was the only G10 currency which lost ground against the USD. EUR hovered around mid-1.09 while AUD fluctuated around 67 cents. USD/JPY re-tested 144 levels, while USD/SGD moved under the 1.33 handle.

Risk Retrenchment & Pivot

- Despite last night's rally, equity markets have not gotten off to the best of starts in 2024, with S&P500 down -0.1% and Nasdaq sliding -1.1% thus far. What's not clear is whether this is:

a) just **sanguine blood-letting** that positions for another leg-up in 2024 after 24% (43%) surge in S&P500 (Nasdaq) last year, **or** b) the start of a **blood bath as a conspiracy of geo-economic threats impose binding risk retrenchment** into 2024.

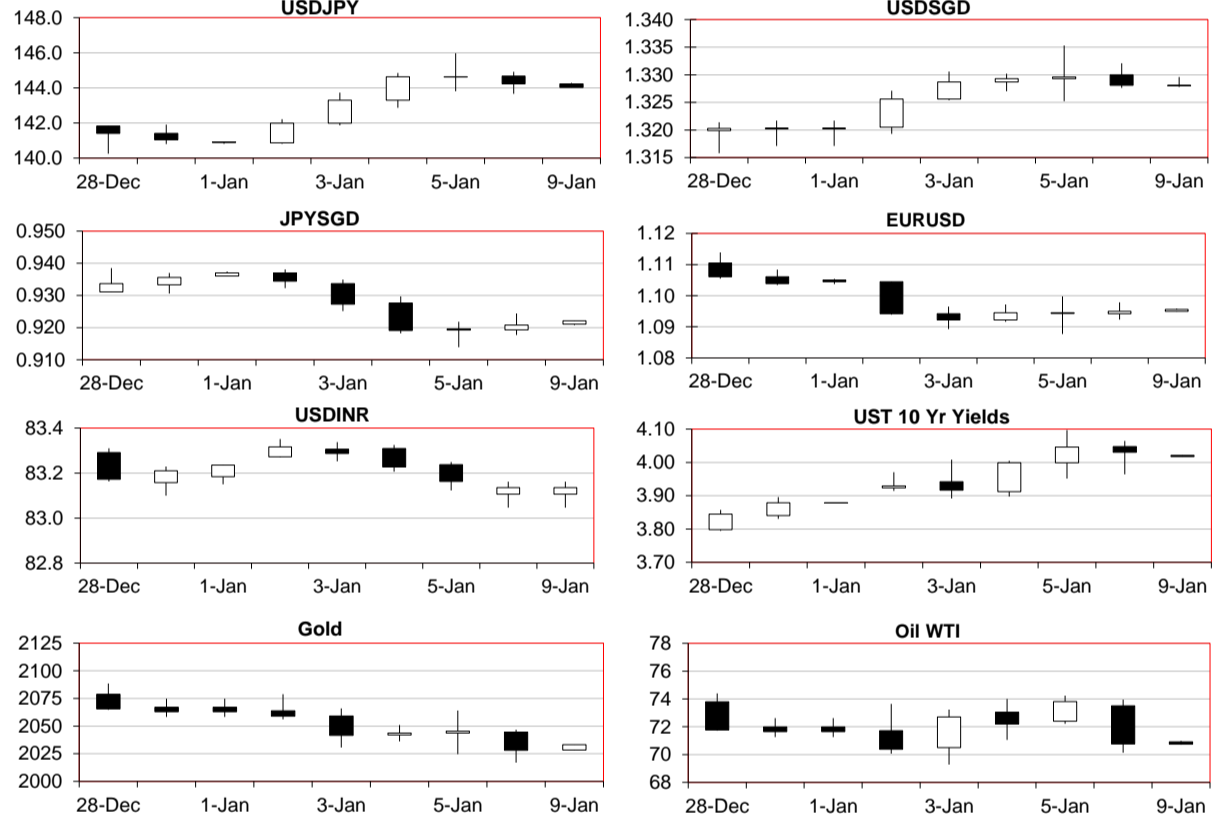
- To be sure, equities have been exuberant even without the exaggeration of the 'Magnificent 7'; as is apparent from the MSCI Global index. Hence, **exceptional surge** in equities that defy elevated, if escalating, rates in 2023 makes a case to lock in profits as more data and policy signals are awaited.

OVERNIGHT RESULTS

(EZ) Retail Sales YoY(Nov): -1.1% (Mkt: -1.5%; Oct: -0.8%) | (EZ) Consumer Confidence (Dec F): -15.0 (Prelim:-15.1)

(EZ) Pentix Investor Confidence (Jan): -15.8 (Mkt: -15.8 Dec: -16.8)

Past Two Weeks Movement



- But our suspicion is that this is **not just a temporary, tactical reflex**. For one, insofar that late-2023 surge was driven by enthused Fed rate cut bets, **US exceptionalism validating Fed push-back** is **cause to moderate "risk on" from pivot**. Crucially, **heightened policy and geo-political uncertainty** suggests that any sharp rate cuts may be from adverse shocks, **not "immaculate dis-inflation"**. One way or another, **some degree of risk retrenchment from elevated valuations** looks to be **par for a bumpy, non-linear course**.

PBoC RRR Cut Will be a Reflection, Not Resolution, of a Crisis

- Whispers growing louder about RRR cuts in the offing merely confirm writings on the wall.

- With the **overhang of sluggish demand showing up in slipping PMIs**, it is a matter of time - and sooner rather than later - **before our (earlier) call for 50-100bp of RRR cuts is validated**.

- But this is low hanging reflex **not an adequate**, much less resounding, **resolution to China's deep-seated confidence deficit** that will likely still hamper an unfettered rebound.

- As we had flagged before*, merely increasing the capacity for credit supply (which RRR cuts will do) will not guarantee a restoration of unimpeded cash-flow. **The depth and breadth of inextricably linked real estate, shadow-banking and local government debt overhang** (exemplified by Zhongzhi's bankruptcy filing last week) **cannot simply be waved off with RRR cuts**. Nor are piece-meal backstops adequate to convincingly provide requisite balance sheet support. For now, welcome as the additional capacity for banking liquidity will be, it merely a reflection of, **but woefully short of a resolution for, the on-going financial stresses in China**.

FX Daily Outlook

- EUR/USD: Hover above mid-1.09 as markets await US CPI print due Thursday.

- USD/JPY: Stay below mid-144 as Fed pivot bets regain some steam.

- USD/SGD: Return back above 1.33 levels plausible on China woes.

- AUD/USD: Oil losses keep pressured under mid-67 cents.

TODAY'S EVENTS

(AU) Building Approvals MoM (Nov): 1.6% (Mkt: -2.0%; Oct: 7.2%) | (AU) Retail Sales MoM (Nov): 2.0% (Mkt: 1.2%; Oct: -0.4%) | (KR) BoP Current Account Balance (Nov): \$4059.7m (Oct: \$6796.1m) | (TW) Trade Balance (Dec): (Mkt: \$9.0b; Nov: \$9.8b) | (PH) Unemployment Rate (Nov): (Oct: 4.2%) | (US) Trade Balance (Nov): (Mkt: -\$65.0b; Oct: -\$64.3b) | (EZ) Unemployment Rate (Nov): (Mkt: 6.5%; Oct: 6.5%)

*Link: https://www.mizuhogroup.com/binaries/content/assets/pdf/singapore/macro/ad-hoc/insights/mizuho-brief_china_liquidity

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