

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	145.41	145.55	▼0.21	+0.92
EUR	1.0979	1.0975	+0.0002	+0.0030
AUD	0.6716	0.6704	+0.0004	▼0.0003
SGD	1.3295	1.3315	▼0.0001	+0.0022
CNY	7.1628	7.1727	+0.0000	+0.0119
INR	83.02	83.04	+0.00	▼0.19
IDR	15549	15570	+0	+80
MYR	4.6424	4.6435	+0.0015	+0.0085
PHP	56.01	56.27	+0.00	+0.77
THB	34.96	35.03	+0.04	+0.57

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.021%	▼0.7 bp	+2.2 bp
JPY (10YR)	0.620%	+3.4 bp	+0.5 bp
EUR* (10YR)	2.212%	+0.0 bp	+8.8 bp
AUD (5YR)	3.794%	+0.6 bp	+5.9 bp
SGD (5YR)	2.720%	+0.0 bp	+4.2 bp
CNY (5YR)	2.399%	+0.0 bp	+0.0 bp
INR (5YR)	7.101%	+0.0 bp	▼3.0 bp
IDR (5YR)	6.614%	+0.0 bp	▼0.2 bp
MYR (5YR)	3.585%	+0.0 bp	▼4.1 bp
PHP (5YR)	5.926%	+0.0 bp	+2.5 bp
THB (5YR)	2.406%	+0.0 bp	▼8.5 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	37,695.73	+0.00%	+0.68%
N225 (JP)	34,441.72	+0.00%	+3.46%
STOXX 50 (EU)	4,468.98	+0.00%	▼0.11%
ASX (AU)	4,180.83	+0.00%	▼0.86%
STI (SG)	3,179.96	+0.00%	+0.19%
SHCOMP (CN)	2,877.70	+0.00%	▼2.59%
SENSEX (IN)	71,657.71	+0.00%	▼0.26%
JSE (ID)	7,227.30	+0.00%	▼1.80%
KLSE (MY)	1,486.86	+0.00%	+0.65%
PSE (PH)	6,546.11	+0.00%	▼0.85%
SET (TH)	1,413.52	+0.00%	▼1.47%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	262.31	+0.00%	▲1.01%
COPPER (LME)	8,269.00	+0.00%	▲1.18%
IRON ORE (CN)	135.90	+0.06%	▲4.47%
GOLD	2,027.46	+0.15%	▲0.79%
OIL (WTI)	71.19	▼0.25%	▼1.39%

Three Take-aways:

- 1) US headline inflation came in higher than expected and core services ex housing inflation was sticky.
- 2) Plunge in UST yields remains questionable as expectations gap with the Fed on March rate cut grows.
- 3) Taiwan elections contain potential for economic and political upheaval.

Surprises

-With 2Y UST yields plunging 11.3bp and 10Y UST yields sinking 6.2bp, one might have thought that US CPI surprised on the downside. To be clear, that **certainly wasn't the case**.

- **Headline inflation came in higher than expected** at 3.4% and was also higher than the November print of 3.1%. The **moderation of core inflation was also milder than expected** at 3.9%.

- **On a sequential MoM basis, core services ex housing rose 0.4% for December** which is at the same pace as November. Admittedly, the **initial reaction post US CPI was an intuitive uptick in UST yields** which is congruent with Fed officials such as Mester who continue to push back on the possibility of a **March cut** who said that **"March is too early" for a rate decline**.

- That said, she was not unequivocally hawkish as she **does not think that this report suggests that the progress in inflation is stalling out**. Notably, the late session sharp fall in 2Y UST yields after healthy UST auction demand, has also been reportedly linked to **large block trade**.

- **Consequently, markets (Fed funds futures) are now pricing in 72% odds of a 25bps rate cut in March** much higher than the 58% chance at the start of this week. **Initial jobless claims which printed lower** ought to impart caution on these near term pivot bets.

- **Skepticism surrounding rate cuts** was perhaps also reflected in the **flat performance of US equities** which was unable to recover above the post CPI decline.

- Similarly, the Greenback appears to be still holding up with the DXY staying above 102.

- EUR remains pressured below 1.10. JPY gained as the USD/JPY slipped towards 145.

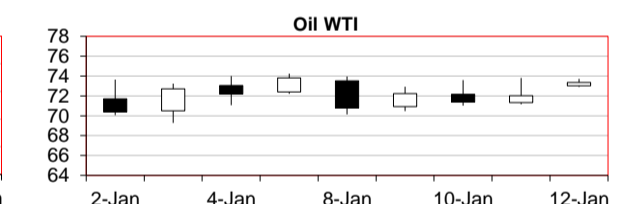
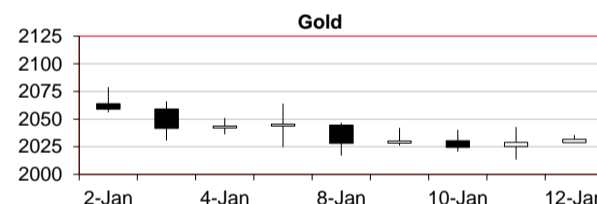
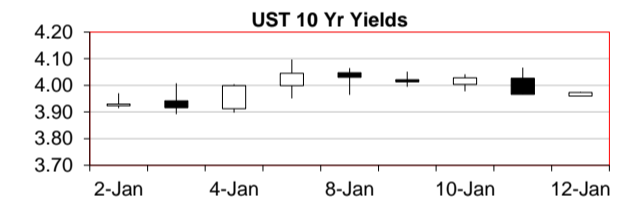
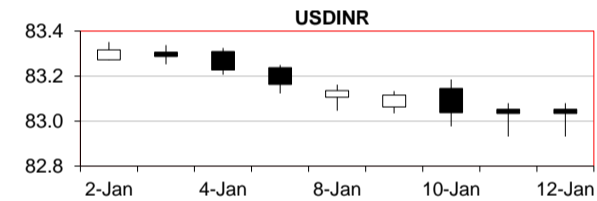
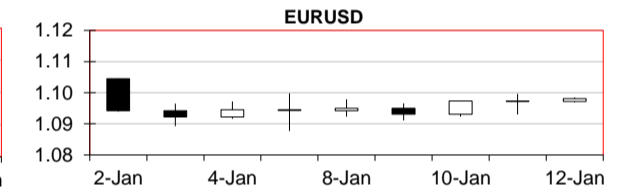
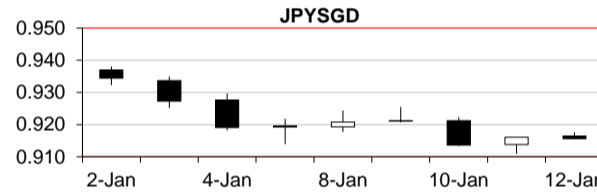
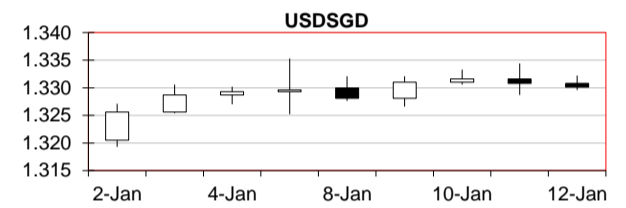
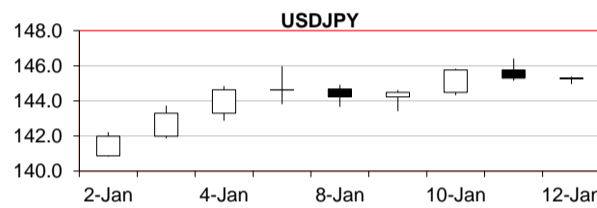
- The NOK gained amid buoyancy in oil prices. As we had alluded to, **oil markets continue to swing between US production/stockpile concerns and geo-political worries**.

OVERNIGHT RESULTS

(MY) Industrial Production YoY (Nov): 0.6% (Mkt: 1.0%; Oct: 2.7%) | (US) Initial Jobless Claims: 202k (Mkt: 210k; prev: 202k) |

(US) CPI/Ex Food and Energy YoY (Dec): 3.4%/3.9% (Mkt: 3.2%/3.8%; Nov: 3.1%/4.0%) |

(JP) Coincident Index/Leading Index CI (Nov P): 114.5/107.7 (Mkt: 114.5/107.9; Oct: 115.9/108.9)

*** Past Two Weeks Movement ***

TODAY'S COMMENTS & FORECAST
Open

USD/JPY	145.09	EUR/USD	1.0982
USD/SGD	1.3299	USD/THB	35.01
JPY/SGD	0.9166	USD/MYR	4.645

Forecast

USD/JPY	144.50 - 146.50
EUR/USD	1.0880 - 1.1040
AUD/USD	0.6640 - 0.6750
USD/SGD	1.3270 - 1.3360
JPY/SGD	0.9058 - 0.9246
USD/CNH	7.1600 - 7.2000
USD/INR	82.90 - 83.30
USD/IDR	15500 - 15600
USD/MYR	4.630 - 4.661
USD/PHP	55.80 - 56.40
USD/THB	34.90 - 35.30

Today's Direction

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

- **US and UK airstrikes on Houthis may not come as a surprise given that it** reflects the depth of pain that recent shipping disruptions in the Red Sea has posed. The **consequent USD and UST haven demand** will further complicate the dynamics of the backdrop of overextended pivot bets.

- In the Asia FX, USD/SGD has slipped below 1.33. Down Under, AUD attempts to test 67 cents.

Taiwan Elections: Business As Usual?

- To be upfront, we **expect no surprises** for the upcoming Taiwan Elections tomorrow as the base case is for the ruling DPP's candidate incumbent Vice President Lai Ching-te to succeed President Tsai. **Nonetheless, we are cognisant of the potential for upheaval**.

- While opinion polls have consistently showed Lai being in the lead, **margins are much smaller compared to the previous two elections**.

- Consequently, we estimate the odds for a KMT upset to about two in five.

- Nonetheless, a **DPP win may not be exactly business as usual** as Beijing is likely to continue viewing Lai as an obstacle towards re-unification and may **step up measures such as import bans alongside military drills**. A **pushback of a more discernible return of tourist from China**, which currently stands at 10% of pre-Covid levels, also appears inevitable as **China refrains from reciprocating Taiwan's relaxation of rules to allow entry of Chinese travellers**.

- **TWD may be subjected to initial weakness from the prospects of strained cross Straits relations**, though broad USD direction and the underlying semiconductor cycle remain key drivers.

FX Daily Outlook

- EUR/USD: Geo-political tensions and energy price spikes to weigh on recovery above mid-1.10.

- USD/JPY: Limits of lower UST yields will be weighed as bets turns cautious, buoyed off mid-144.

- USD/SGD: China woes may resurface to restrain slippage below mid-1.33.

- AUD/USD: Lower UST yields aid consolidation just below 67 cents as China data may hold back rallies.

TODAY'S EVENTS

(JP) BoP Current Balance (Nov): ¥1925b (Mkt: ¥2385b; Oct: ¥2582b)

(CH) Exports/Imports YoY (Dec): (Mkt: 1.5%/-0.5%; Nov: 0.5%/-0.6%) | (CH) CPI/PPI YoY (Dec): (Mkt: -0.4%/-2.6%; -0.5%/-3.0%)

(IN) CPI YoY (Dec): (Mkt: 5.9%; Nov: 5.6%) | (IN) Industrial Production YoY (Nov): (Mkt: 3.5%; Oct: 11.7%)

(US) PPI Final Demand/Ex Food and Energy YoY (Dec): (Mkt: 1.3%/2.0%; Nov: 0.9%/2.0%)

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