MIZUHO

DAILY MARKET REPORT

29-Jan-2024 Monday

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	147.78	147.71	+0.05	▼0.41
EUR	1.0819	1.0845	▼0.0001	▼0.0053
AUD	0.6582	0.6582	▼0.0003	▼0.0015
SGD	1.3412	1.3404	+0.0002	▼0.0004
CNY	7.1814	7.1739	+0.0000	▼0.0195
INR	83.12	83.12	+0.00	+0.05
IDR	15825	15825	+0	+210
MYR	4.7250	4.7315	+0.0000	+0.0130
PHP	56.33	56.55	+0.00	+0.58
THB	35.66	35.75	+0.02	+0.23

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.111%	▼0.8 bp	▼1.2 bp
JPY (10YR)	0.728%	▼1.8 bp	+6.0 bp
EUR* (10YR)	2.290%	+0.0 bp	▼5.2 bp
AUD (5YR)	3.851%	+0.0 bp	▼6.2 bp
SGD (5YR)	2.908%	+0.0 bp	+5.9 bp
CNY (5YR)	2.353%	+0.0 bp	▼4.1 bp
INR (5YR)	7.086%	+0.0 bp	▼1.2 bp
IDR (5YR)	6.565%	▼0.4 bp	+8.8 bp
MYR (5YR)	3.561%	+0.0 bp	▼2.3 bp
PHP (5YR)	6.002%	+0.0 bp	+10.8 bp
THB (5YR)	2.437%	+0.0 bp	▼1.6 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	38,049.13	+0.00%	+0.49%
N225 (JP)	36,236.47	+0.00%	+0.76%
STOXX 50 (EU)	4,582.26	+0.00%	+3.00%
ASX (AU)	4,122.73	+0.00%	+1.05%
STI (SG)	3,147.64	+0.00%	▼0.15%
SHCOMP (CN)	2,906.11	+0.00%	+2.61%
SENSEX (IN)	70,700.67	+0.00%	▼1.37%
JSE (ID)	7,178.04	+0.00%	▼0.68%
KLSE (MY)	1,504.10	+0.00%	+1.19%
PSE (PH)	6,673.50	+0.00%	+2.61%
SET (TH)	1,376.09	+0.00%	▼0.46%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	272.40	+0.00%	+2.65%
COPPER (LME)	8,477.50	+0.00%	+2.49%
IRON ORE (CN)	135.20	▲0.16%	+0.93%
GOLD	2,020.85	+0.00%	▲0.43%
OIL (WTI)	77.13	▼0.30%	+5.07%

Three Take-aways:
1) Insufficient dis-inflation conspire with stronger spending reduce ground for deep Fed cuts.
2) Attack on Russian fuel sent oil prices soaring and risks of prolonged and expanding conflict persist.
3) MAS hold underscores "two-way" risks. Distinct SGD out-performance has been mostly exhausted.

Reasoning

- Last Friday, the reasoning for bets on **deep** Fed rate cuts was found wanting. While **PCE deflator was within expectations**, **headline** PCE deflator **sticking** around at 2.6% YoY for Dec **is facing risks of further spikes** from **Brent oil prices rising to above US$ 83/barrel on renewed Red sea woes.**
- The **jump in oil prices** was driven by a **heightened possibility** of **direct disruption to oil supplies as a** missile hit a tanker with Russian fuel which **was previously thought to be safe.** It remains to be seen if the previous "Russian" exemption by the Houthis will hold or will there be **"valid" reasoning to confine this to an isolated incident.** Even in the event of the latter, **the death of US servicemen in a separate incident** has threatened to escalate the conflict and the associated financing cost.
- The prospects of higher headline inflation offsets the comfort of core dis-inflation. Furthermore, **personal spending exceeding expectations also does not provide the grounds for deep rate cuts.** Consequently, UST 2Y yields rose 5.6bps while 10Y yields edged up 1.9bp.
- US equities made little headway, trading mixed. In FX, **USD has little reason to buckle** at this juncture, save for mild slippage against the likes of CAD and NOK backed by higher oil prices. USD/JPY rose above 148 while EUR has slipped below mid-1.08. AUD remain near mid-65 cents.

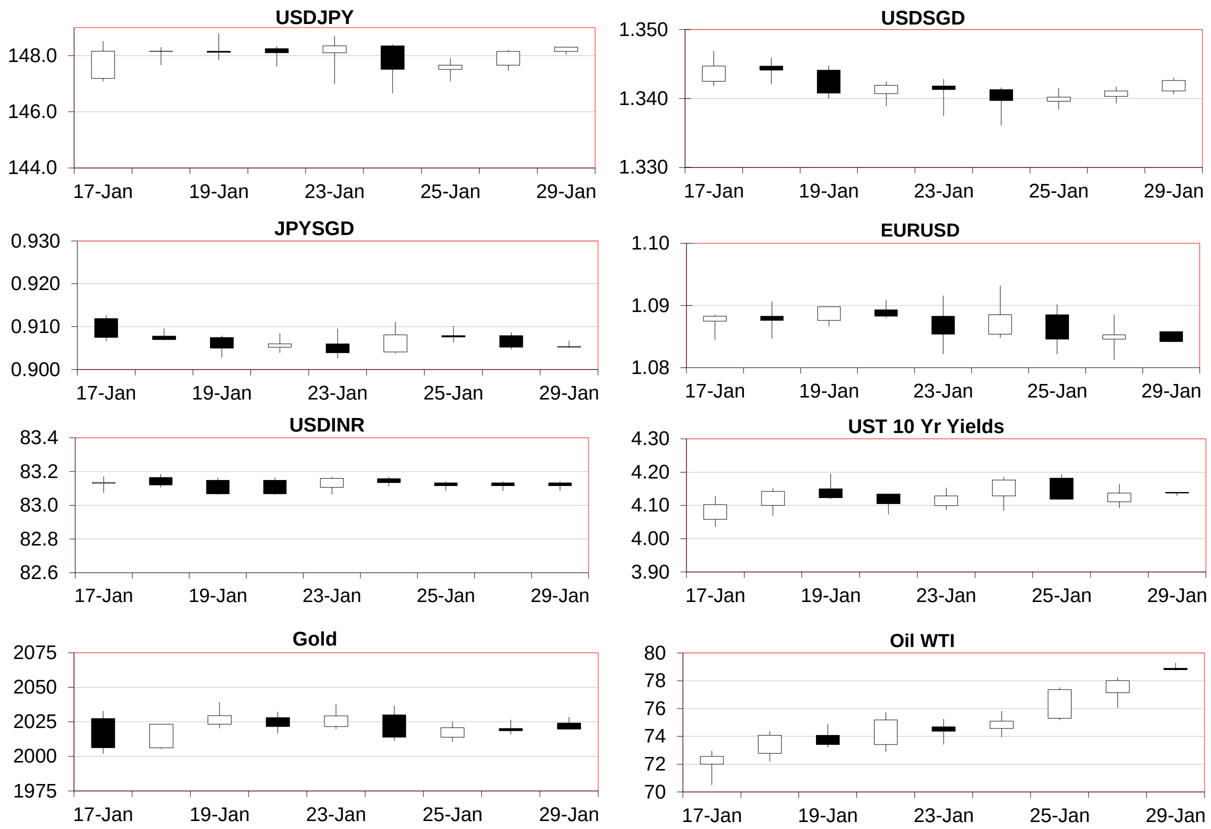
MAS: Extended Hold; Exhausted (SGD) Out-performance?

- As almost universally expected, the **MAS maintained status quo**. But as we have asserted, this is **not a passive, comfortable policy equilibrium**. Rather, it is **underscored by dynamic tensions.**
- For a start, **worries of sticky inflation linger** (headline and core) are *compounded by uncertain inflation/expectations interactions* as *external cost shock risks* from on-going geo-politics/conflict collide with *onshore administrative* (GST/carbon tax) *price hikes*.
- As alluded to by the MAS, *"(b)oth upside and downside risks to the inflation outlook remain*". Which is to say, an **unconditional shift to neutral stance** that drops all hawkish refrains is **unlikely in the near-term. Certainly not in a mechanical response to Fed/global central bank pivot.**

OVERNIGHT RESULTS

(SG) Industrial Production YoY (Dec): -2.5% (Mkt: 1.0%; Nov: 1.0%) | **(US) PCE Deflator/Core YoY (Dec): 2.6%/3.0% (Mkt: 2.6%/3.0%; Nov: 2.6%/3.2%)** | (US) Kansas City Fed Manf. Activity (Jan): -2 (Mkt: -3; Dec: -1) **| (US) Personal Income/Spending (Dec): 0.3%/0.7% (Mkt: 0.3%/0.5%; Nov: 0.4%/0.2%)**

*** Past Two Weeks Movement ***



- Equally, despite **baseline expectations for growth to improve** amid (broader) strengthening of the economy; this assessment is ***subject to major global demand shocks being averted.***
- And so, to be sure, **semi-/electronics led turnaround in manufacturing** is expected to **bolster** the more **resilient service sector** (amid on-going global travel/commerce narrative); thereby ***diminishing*** the ***negative output gap*** by second half of 2024 and underscoring current policy setting. All else equal, this underscores current policy settings (restriction) to be maintained as a default. **But heightened uncertainty** from *lagged impact of global monetary policy tightening* (that has resulted in elevated rates at two decade highs) conspiring with *"live" geo-political risks* means **sharp downside risks to an otherwise bumpy recovery path cannot be dismissed** either. This necessitates that **policy hold amid growing dynamics tensions** remains the default.
- What's more, it is worth noting that **MAS' FX-based policy calibrations are more dynamic** (than rates-based policy); therefore **requiring less "active adjustments" either way.**
- That's to say, the **bar is higher for overt easing** (or tightening for that matter) *in sympathy with Fed/global policy inflections. Meanwhile the (presumed) 2% appreciation path of the S$NEER slope ought to anchor inflation expectations so long as the broader dis-inflation trend holds.*
- But ***despite MAS' relative restrictive stance***, continued **SGD out-performance is not a given.**
- Especially *as a rich S$NEER* close to the policy band ceiling *only leaves scope for 10-40bps of trade-weighted out-performance*. In particular, **absent CNH or wider Asia FX rallies, distinct SGD out-performance has been mostly exhausted.**
- Instead, **USD/SGD is likely to be driven by overarching USD trends/shifts.**

TODAY'S COMMENTS & FORECAST

Open

USD/JPY	148.16	EUR/USD	1.0843
USD/SGD	1.3421	USD/THB	35.63
JPY/SGD	0.9059	USD/MYR	4.728

Forecast

USD/JPY	147.50	-	148.50
EUR/USD	1.0780	-	1.0900
AUD/USD	0.6500	-	0.6620
USD/SGD	1.3390	-	1.3440
JPY/SGD	0.9017	-	0.9112
USD/CNH	7.1700	-	7.2100
USD/INR	83.00	-	83.20
USD/IDR	15750	-	15850
USD/MYR	4.720	-	4.750
USD/PHP	56.20	-	56.60
USD/THB	35.50	-	35.90

Today's Direction

	Bull		Bear
USD/SGD	6	:	2
USD/JPY	4	:	4

FX Daily Outlook

- EUR/USD: Higher UST yields will continue to assert and weigh below 1.09.
- USD/JPY: UST yield buoyancy set tone toward mid148 but intervention risks has escalated.
- USD/SGD: MAS hold restrains outright climb above mid-1.34.
- AUD/USD: Not outright boost, Oil remains a lethagic backstop for 65 cents.

TODAY'S EVENTS

(VN) Industrial Production YoY (Jan): (Dec: 3.6%) | (VN) Retail Sales (Jan): (Dec: 9.3%)
(VN) CPI YoY (Jan): (Mkt: 3.5%; Dec: 3.6%) | (VN) Trade Balance (Jan): (Dec: $2280m)
(US) Dallas Fed Manf. Activity (Jan): (Mkt: -9.3; Dec: -9.3)