

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	146.37	146.16	+1.21	▼1.05
EUR	1.0755	1.0765	+0.0002	▼0.0071
AUD	0.6555	0.6568	▼0.0011	▼0.0052
SGD	1.3442	1.3438	+0.0017	+0.0061
CNY	7.1828	7.1741	+0.0039	+0.0307
INR	83.39	83.39	+0.00	+0.03
IDR	15617	15615	+105	+160
MYR	4.6838	4.6832	+0.0192	+0.0267
PHP	55.65	55.66	+0.35	+0.33
THB	35.69	35.33	+0.00	+0.39

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.233%	+0.8 bp	▼2.0 bp
JPY (10YR)	0.765%	▼0.1 bp	+6.8 bp
EUR* (10YR)	2.270%	▼0.6 bp	▼8.4 bp
AUD (5YR)	4.002%	+4.7 bp	▼9.8 bp
SGD (5YR)	2.870%	+2.5 bp	▼2.5 bp
CNY (5YR)	2.541%	▼1.7 bp	▼4.9 bp
INR (5YR)	7.250%	+0.5 bp	+0.5 bp
IDR (5YR)	6.620%	+6.4 bp	+6.6 bp
MYR (5YR)	3.591%	+1.2 bp	▼2.5 bp
PHP (5YR)	5.981%	▼4.2 bp	▼4.0 bp
THB (5YR)	2.532%	+0.0 bp	▼7.9 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	36,404.93	+0.43%	+0.55%
N225 (JP)	32,791.80	+1.50%	▼1.32%
STOXX 50 (EU)	4,540.19	+0.37%	+2.84%
ASX (AU)	4,112.31	▼0.07%	+0.66%
STI (SG)	3,090.20	▼0.66%	+0.20%
SHCOMP (CN)	2,991.44	+0.74%	▼1.04%
SENSEX (IN)	69,928.53	+0.15%	+1.54%
JSE (ID)	7,088.79	▼0.99%	▼0.07%
KLSE (MY)	1,446.39	+0.31%	▼0.32%
PSE (PH)	6,228.29	▼0.10%	▼0.89%
SET (TH)	1,380.99	+0.00%	▼0.18%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	261.77	▲0.40%	▲2.18%
COPPER (LME)	8,249.10	▲1.40%	▲1.36%
IRON ORE (CN)	135.79	▲0.31%	+4.15%
GOLD	1,981.95	▲1.13%	▲2.34%
OIL (WTI)	71.32	+0.13%	▼2.35%

Three Take-aways:

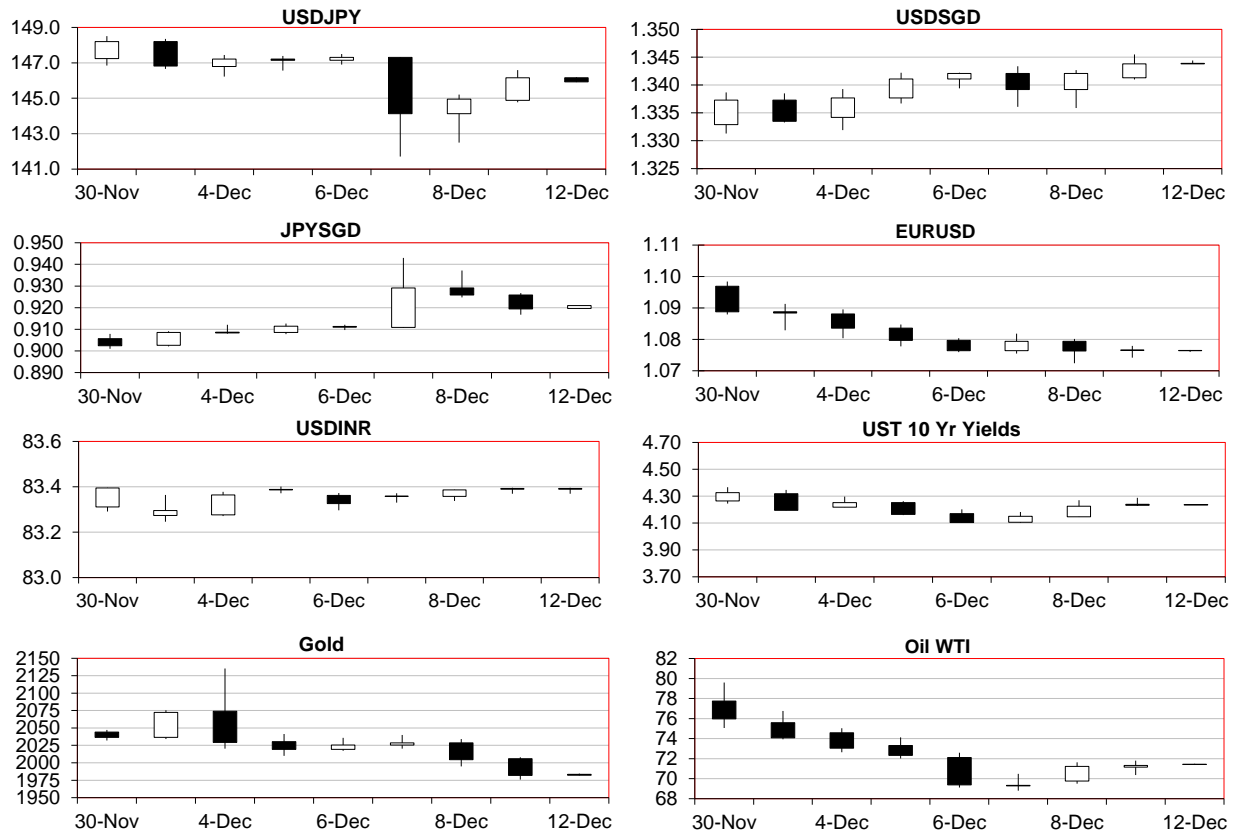
- 1) JPY underperformed on BoJ's cautious messaging on the need for clear evidence on wage growth.
- 2) Still-elevated front end yields and near-term inflation expectations warrant caution on Fed pivot bets.
- 3) Headwinds to growth guide a BSP hold even as latent inflation risks could warrant tightening.

Evidence Required

- On balance, **markets awaiting more actual evidence of dis-inflation tonight refrained from emphatic on both piling on or dialing back Fed pivot bets.**
- The lacklustre recovery in oil prices which aided 10Y UST yields to edge higher was subsequently dampened by resilient demand at 10Y auction to close marginally higher.
- On the front end, **lower inflation expectations** may have assisted the dip in yields. (See below)
- USD traction was retained on still elevated yields. The **JPY underperformed** on reports that BoJ officials see little need to rush into exiting NIRP, citing **insufficient evidence of wage growth that would support sustainable inflation.** USD/SGD briefly touched mid-1.34 and EUR dipped below mid-1.07. Meanwhile, AUD hovered above mid-65 cents.

US Inflation Expectations ... Gap?

- **Equity markets' cheer**, and perhaps even the **dip in front-end yields**, is *arguably a benefit of softer near-term inflation expectations.* The most proximate trigger being the NY Fed survey of 1Y inflation expectations showing a drop to 3.36% from 3.57%. Fractional? Yes. But it reinforces earlier U. of Michigan 1Y inflation expectations plunging from 4.5% to 3.1% (whereas consensus was for a modest decline to 4.3%). Admittedly, softening in survey prints of near-term inflation expectations justifiably assuages concerns about unmoored inflation expectations.
- But trouble is, **overly exuberant "pivot zealots"** may be **set up for stumbles over the markets-Fed expectations gap.** For one, even with the gap down, inflation on both counts are well above the Fed's 2% target; and so the Fed may not hasten to declare a pivot.
- Crucially, if the lesson from the 70s is taken to heart, insofar that **high and volatile inflation** that is turned out to be problematic, the Fed may not relent at the first signs of dis-inflation.
- Instead a **higher bar for "last mile" dis-inflation may be employed.**
- Accordingly, markets may have to endure the **turbulence from "air pockets" of expectations gap** between *instant gratification* of dis-inflation and the *Fed's pushback on premature pivot.*

OVERNIGHT RESULTS
Last Two Weeks Movement*
 (MY) Industrial Production YoY (Oct): 2.7% (Mkt: 2.6%; Nov: 0.2%)

TODAY'S COMMENTS & FORECAST
Open

USD/JPY	146.09	EUR/USD	1.0765
USD/SGD	1.3439	USD/THB	35.71
JPY/SGD	0.9199	USD/MYR	4.682

Forecast

USD/JPY	144.00 - 147.50
EUR/USD	1.0720 - 1.0790
AUD/USD	0.6480 - 0.6620
USD/SGD	1.3390 - 1.3490
JPY/SGD	0.9078 - 0.9368
USD/CNH	7.1700 - 7.2200
USD/INR	83.35 - 83.60
USD/IDR	15520 - 15680
USD/MYR	4.663 - 4.692
USD/PHP	55.30 - 55.90
USD/THB	35.00 - 35.70

Today's Direction

	Bull	Bear
USD/SGD	8	0
USD/JPY	8	0

BSP: Inflation Woes

- The BSP may be **set to stand pat** at the last meeting for the year, **but policy tensions persist.**
- For a start **BSP's battle against inflation aren't over.** Fact is, even after sharp deceleration, inflation still a touch above the ceiling of the 2-4% target. Crucially, **renewed upside risk to inflation persists** amid report of higher retail prices of eggs and rice. In addition, **approved increases of public transport fares, as well as revisions on minimum wages* risk stickier inflation via second-round effects working its way through the economy.**
- Accordingly, the **pause is likely to be tentative, retaining some degree of tightening bias.**
- Our base case for a hold at this juncture is guided by **our view that BSP has already took into account the above factors in its last decision** in Nov, which saw the BSP revising its headline inflation forecast upwards. The recent moderation in oil prices also help further alleviate price pressures. Further, BSP expects El-Nino induced price increases to only come through in Q2'24.
- Meanwhile, **cumulative rate hikes may be increasingly restrictive on growth.** Domestic consumption, a key pillar of growth in recent quarters, has been growing at a slower pace since peaking at 10% YoY in Q1'23, and the volume growth in domestic trade dipped into contractionary territory in Q3'23 for the first time since Q1'22. As such, **despite Q3 GDP upside surprise, 2023 growth will likely fall short of the 6% target.**
- On balance even as headwinds to growth mount latent inflationary risks demand restrictive policy settings. And so, the BSP will have to abide by the current status quo till next year.

* -7% increase in minimum wage in the National Capital Region is expected to directly benefit 1.1 million workers.

FX Daily Outlook

- EUR/USD: Consolidation around mid-1.07 ahead of US CPI print.
- USD/JPY: Test of 147 plausible should a strong CPI print dial down Fed pivot bets.
- USD/SGD: Buoyed above 1.34 as China worries loom and cautious positioning ahead of US data.
- AUD/USD: Below 66 cents amid China woes and lack of hawkish undertones in RBA speech.

TODAY'S EVENTS

(JP) PPI YoY (Nov): 0.3% (Mkt: 0.1%; Oct: 0.8%; Revised: 0.9%) | (IN) Industrial Production YoY (Oct): (Mkt: 10.2%; Sep: 5.8%) | (IN) CPI YoY (Nov): (Mkt: 5.8%; Nov: 4.9%) | (PH) Exports/Imports YoY (Oct): (Mkt: -8.2%/-4.9%; Sep: -6.3%/-14.7%) | (US) CPI/Ex Food and Energy YoY (Nov): (Mkt: 3.1%/4.0%; Oct: 3.2%/4.0%) | (GE) ZEW Survey Expectations/Current (Dec): (Mkt: 8.0/-76.0; Nov: 9.8/-79.8)

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