Mizuho Bank, Ltd. Asia & Oceania Treasury Department
Tel: 65-6805-4200

MIZUHO

DAILY MARKET REPORT

09-Dec-2022 Friday

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	136.69	136.67	+0.05	+1.34
EUR	1.0524	1.0556	+0.0050	+0.0036
AUD	0.6731	0.6769	+0.0044	▼0.0042
SGD	1.3563	1.3536	▼0.0018	+0.0001
CNY	6.9707	6.9674	▼0.0026	▼0.0860
INR	82.34	82.43	▼0.05	+1.21
IDR	15621	15621	▼17	+58
MYR	4.4000	4.4015	+0.0045	▼0.0055
PHP	55.47	55.47	+0.00	▼0.73
THB	34.78	34.83	▼0.26	▼0.15

*compared with previous day CLOSE(NY)

Govt Bond Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.482%	+6.5 bp	▼2.3 bp
JPY (10YR)	0.255%	+0.0 bp	+0.2 bp
EUR* (10YR)	1.820%	+3.8 bp	+0.6 bp
AUD (5YR)	3.162%	▼0.3 bp	▼5.2 bp
SGD (5YR)	2.884%	▼2.0 bp	▼2.2 bp
CNY (5YR)	2.720%	▼1.7 bp	+4.3 bp
INR (5YR)	7.174%	+3.5 bp	+10.6 bp
IDR (5YR)	6.200%	▼1.3 bp	+1.2 bp
MYR (5YR)	3.839%	▼2.8 bp	▼4.8 bp
PHP (5YR)	6.274%	+0.2 bp	▼20.0 bp
THB (5YR)	2.103%	▼1.6 bp	▼9.5 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	33,781.48	+0.55%	▼1.78%
N225 (JP)	27,574.43	▼0.40%	▼2.31%
STOXX 50 (EU)	3,921.27	+0.01%	▼1.59%
ASX (AU)	4,082.24	▼0.28%	▼1.42%
STI (SG)	3,236.08	+0.33%	▼1.72%
SHCOMP (CN)	3,197.35	▼0.07%	+1.01%
SENSEX (IN)	62,570.68	+0.26%	▼1.13%
JSE (ID)	6,804.23	▼0.21%	▼3.08%
KLSE (MY)	1,465.93	▼0.06%	▼1.72%
PSE (PH)	6,525.16	+0.00%	▼3.12%
SET (TH)	1,620.49	▼0.11%	▼1.70%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	266.40	+0.19%	▲4.67%
COPPER (LME)	8,524.75	+1.12%	+2.57%
IRON ORE (CN)	109.22	+2.35%	+6.10%
GOLD	1,789.14	+0.16%	▲0.77%
OIL (WTI)	71.46	▼0.76%	▼12.02%

Liking the Glass

- It appears that the **proposition is no longer "half-full" versus "half-empty"**; when assessing the Fed's path of hikes and China's COVID as well as property restrictions.
- Instead, it is simply that **markets are smitten with the fact that there is a glass on the table at all**. And it is *fuelled by intoxicating (over-)optimism Fed pivot and China stimulus.*
- **Equities have put up a nice bounce** (S&P500 up 0.8%; Nasdaq rallying 1.1%) to recoup some of the moderation over the last few sessions, which have trimmed, but not turned the rallies since early-November. In fact, for all appearances, a "Santa rally" appears to be in action.
- **Higher UST yields** (up 6-78bps), arguably **concede some caution ahead of the FOMC about hawkish streaks** next week; as might the policy barrage with the rest of the G4 MPC line-up.
- **Nonetheless**, that does not appear to have upended the underlying cheer from pivot bets; derived from markets grasping at a well-telegraphed dial-back in hikes (75bp to 50bp) as the start of Fed policy inflection. Accordingly, USD is softer; with EUR above mid-10.5, AUD above mid-0.67, sub-137 USD/JPY and USD/SGD pushing low-1.35.
- **Selective hearing/reasoning**, which ignores Fed Chair Powell's appeals that a slowdown in the pace of hikes is less important in assessing policy intent and that it is "very premature to be thinking about pausing", is perhaps less about cognisance deficit than it is about convenience.
- Markets want to rally to ease the pain from earlier in the year. And so, slightly higher jobless claims, slipping crude prices and peaking inflation are conveniently seized upon. Whereas *proper soul-searching between peak relief and persistent pain will be deferred for later.*

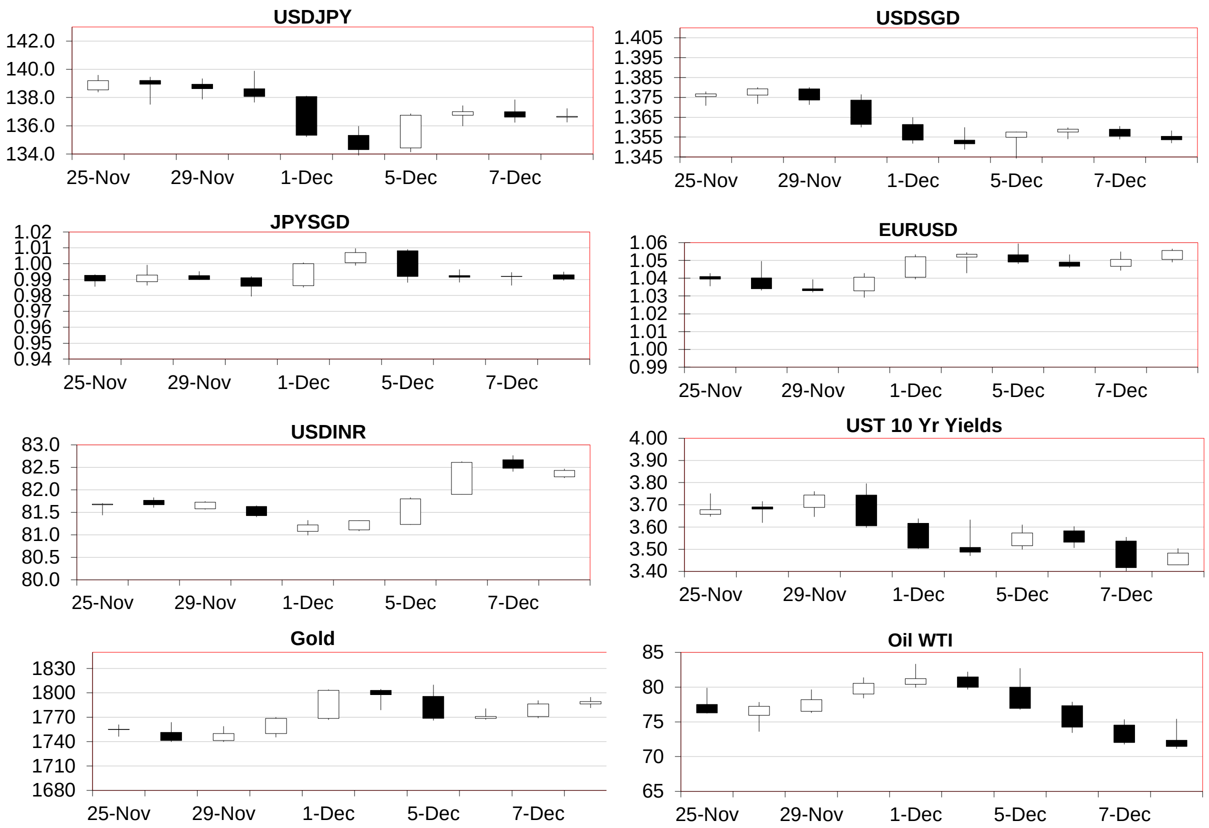
Of Peaks & Persistence

-The **obsession in this Fed tightening cycle is all on the peak.**
- Specifically, *peak inflation*, the *corresponding peak rates* and the *correlated peak USD.*
- To end, markets have unsurprsingly been met with **bona fide evidence of peak inflation and (approaching) peak rates**. And **markets have been (a tad too) quick** not only **to** pounce on these, but **project encouraging signs of peak as euphoria about as a "pivot"**.
- And therein lies the risk that such *one-dimensional obsession with peak inflation and rates may ironically under-state or miss red flags for peak pain*. Two reasons why.

OVERNIGHT RESULTS

(US) Initial Jobless Claims (3 Dec): 230K (Mkt: 230k; Prev: 226k)

*** Past Two Weeks Movement ***



- First, the **unprecedented speed of the rate hikes (alongside QT)** could be **setting off far more adverse (chain-)reactions** than the amplitude of rate hikes alone may reveal.
- And given the lags in monetary policy, a "wall of tightening" may hit the global economy yet.
- Thus it is premature to declare that we are out of the woods an on to a soft landing.
- Second, in this Volcker re-boot of Fed hawkishness, there is *a danger of overlooking the "for longer" condition that accompanies "higher" (rates).*
- That's especially in the context of **threats to stability from "higher"** rates disproportionately **being obsessed over compared to stress from** (elevated rates) **"for longer"**.
- *Consequently*, the *assumed relief from peak rates is overstated.* Especially *if* the Fed's focus on *persistence of tighter conditions* (to durably anchor inflation expectations) *is executed.*
- And so, getting past the fastest pace of tightening, **persistence of tightening will be as much a risk as is the pain from peak inflation, rates and USD.**
- Equally, **peak China risks** - whether from "Zero COVID" or conflicts from "Common Prosperity" - may be consistent with the **emergence of cyclical China boost**. But that **does not negate the persistence of structural China headwinds** that confront the world.
- And so, the **likelihood is that persistent China headwinds and disruptions may continue to pose challenges**, if not outright threats to the global economy.
- All said, *peak inflation and tightening do not necessarily spell a reversion to blue skies and sunshine* economic conditions. Instead, *persistence of price pressures, tightening conditions and geo-political risks* warn of further bouts of turbulence ahead.

TODAY'S COMMENTS & FORECAST

Open

USD/JPY	136.63	EUR/USD	1.0557
USD/SGD	1.3531	USD/THB	34.73
JPY/SGD	0.9904	USD/MYR	4.398

Forecast

USD/JPY	135.00	-	138.00
EUR/USD	1.0390	-	1.0550
AUD/USD	0.6500	-	0.6800
USD/SGD	1.3520	-	1.3620
JPY/SGD	0.9797	-	1.0089
USD/CNH	6.9200	-	6.9900
USD/INR	81.50	-	82.60
USD/IDR	15500	-	15720
USD/MYR	4.360	-	4.420
USD/PHP	55.00	-	56.00
USD/THB	34.60	-	35.25

Today's Direction

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

FX Daily Outlook

- EUR/USD: More "risk on" could boost the EUR to test 1.06; but beware pre-FOMC pullbacks.
- USD/JPY: sub-137 in play reflects broad-based USD slip; but higher UST yields hamper 136-test.
- USD/SGD: China cheer could push for sub-1.35 test iof indeed fresh CNH rallies eemerge.
- AUD/USD: Copper boos on China property cheer provides lift although air is thinner past 0.68.

TODAY'S EVENTS

(KR) Current Account/Good Bal (Oct): $883.4m/-$1478.4m (Sep: $1583.3m/$466.2m)
(CH) CPI/PPI YoY (Nov): (Mkt: 1.6%/-1.5%; Oct: 2.1%/-1.3%) | (US) PPI/Core* YoY (Nov): (Mkt: 7.2%/5.9%; Oct: 8.0%/6.7%)
(US) University of Michigan (UoM) Sentiment (Dec P): (Mkt: 57.0; Nov: 56.8)
(US) UoM 1Y/5-10Y Inflation Expectations YoY (Dec P): (Mkt: 4.9%/3.0%; Nov: 4.9%/3.0%)
(Central Banks): ECB's Villeroy speaks

* Ex-Energy & Food

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