

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	137.44	135.59	▼2.08	▼1.41
EUR	1.0551	1.0633	+0.0096	+0.0166
AUD	0.6776	0.6855	+0.0110	+0.0167
SGD	1.3543	1.3469	▼0.0080	▼0.0121
CNY	6.9784	6.9517	▼0.0259	▼0.0433
INR	82.70	82.81	+0.27	+0.20
IDR	15658	15657	+29	+39
MYR	4.4315	4.4285	+0.0105	+0.0335
PHP	55.90	55.92	+0.26	▼0.07
THB	34.79	34.81	+0.01	▼0.24

*compared with previous day CLOSE(NY)

Govt Bond Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.501%	▼11.0 bp	▼3.0 bp
JPY (10YR)	0.254%	+0.1 bp	▼0.2 bp
EUR* (10YR)	1.925%	▼1.4 bp	+12.5 bp
AUD (5YR)	3.216%	+4.2 bp	+3.1 bp
SGD (5YR)	2.897%	▼0.7 bp	▼3.0 bp
CNY (5YR)	2.763%	+2.8 bp	+4.1 bp
INR (5YR)	7.133%	▼3.3 bp	+2.6 bp
IDR (5YR)	6.207%	+1.7 bp	+0.8 bp
MYR (5YR)	3.874%	+0.2 bp	▼0.4 bp
PHP (5YR)	6.315%	+0.0 bp	▼6.4 bp
THB (5YR)	2.109%	+1.2 bp	▼2.7 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	34,108.64	+0.30%	+1.52%
N225 (JP)	27,954.85	+0.40%	+0.25%
STOXX 50 (EU)	3,986.83	+1.66%	+1.21%
ASX (AU)	4,105.09	+0.86%	▼0.23%
STI (SG)	3,271.28	+0.98%	+0.58%
SHCOMP (CN)	3,176.33	▼0.09%	▼1.13%
SENSEX (IN)	62,533.30	+0.65%	▼0.15%
JSE (ID)	6,810.32	+1.13%	▼1.19%
KLSE (MY)	1,470.12	▼0.29%	▼0.10%
PSE (PH)	6,582.38	▼0.04%	▼1.38%
SET (TH)	1,625.91	+0.17%	▼0.43%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	275.03	+2.10%	+2.83%
COPPER (LME)	8,329.25	+0.00%	▲0.66%
IRON ORE (CN)	109.41	▲0.14%	+0.92%
GOLD	1,810.80	+1.65%	+2.25%
OIL (WTI)	75.39	+3.03%	+1.54%

TODAY'S COMMENTS & FORECAST

Open

USD/JPY	135.59	EUR/USD	1.0626
USD/SGD	1.3469	USD/THB	34.60
JPY/SGD	0.9934	USD/MYR	4.428

Forecast

USD/JPY	134.70 - 137.20
EUR/USD	1.0520 - 1.0700
AUD/USD	0.6780 - 0.6910
USD/SGD	1.3410 - 1.3570
JPY/SGD	0.9774 - 1.0074
USD/CNH	6.9300 - 6.9830
USD/INR	82.00 - 82.85
USD/IDR	15500 - 15720
USD/MYR	4.385 - 4.433
USD/PHP	55.35 - 56.00
USD/THB	34.45 - 34.80

Today's Direction

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

CPI Relief

- Fed "pivot" trades have been catalysed by quicker than expected deceleration in US inflation (Nov); to 7.1% (core: 6.0%) [vs. consensus: 7.3%/6.1%; Oct: 7.7%/6.3%].

- At face value this means **three things that are of consequence**:

- i) *scope for the Fed to temper pace of hikes* (from 50bp in Dec) to 25bp in 2023 has grown;
- ii) *peak rates are more likely to be on the softer side of 5.00-5.50%*, and;
- iii) *split amongst the Fed may intensify*; as doves desire a quicker end to hikes.

- Tellingly, a glance across markets **reveal relief from softer US inflation** corresponding to;

- a *lift in equities* (S&P: +0.7%, Nasdaq: +1.0%) alongside;
- a *knock down in UST yields* (10Y: -11bp to 3.50%; 2Y: -15.7bp to 4.22%) and;
- the *USD being sold off on emboldened peak (and pivot?) bets*.

- Against a softer USD, EUR has surged towards mid-1.06; AUD flirted with a 0.69 test before easing to mid-0.68 (still up almost one-big figure) while USD/SGD has slumped below 1.35;

- USD/JPY fell from sub-138 to mid-135 as sharp drop in UST yields amplified soft USD impact.

Not a Game-Changer... Nor Redemption

- Nevertheless, US CPI relief **does not change the narrative or the course of Dec FOMC**.

- That's to say, the high likelihood of 50bp hike in December is unaffected.

- Crucially, the options for remain as "50 or 75", not "50 or 25".

- This has to do with the **inflation details under the hood being less encouraging than it is on the surface**. Specifically, decline in sequential headline CPI to +0.1% MoM (from +0.4% MoM in Oct) accentuated by -0.5% MoM drop in Core Goods; whereas Core Services is up 0.4% MoM.

- The upshot being, the **migration of inflation from core goods to core services** (now made extreme by core goods deflation) **distorts inflation risks**.

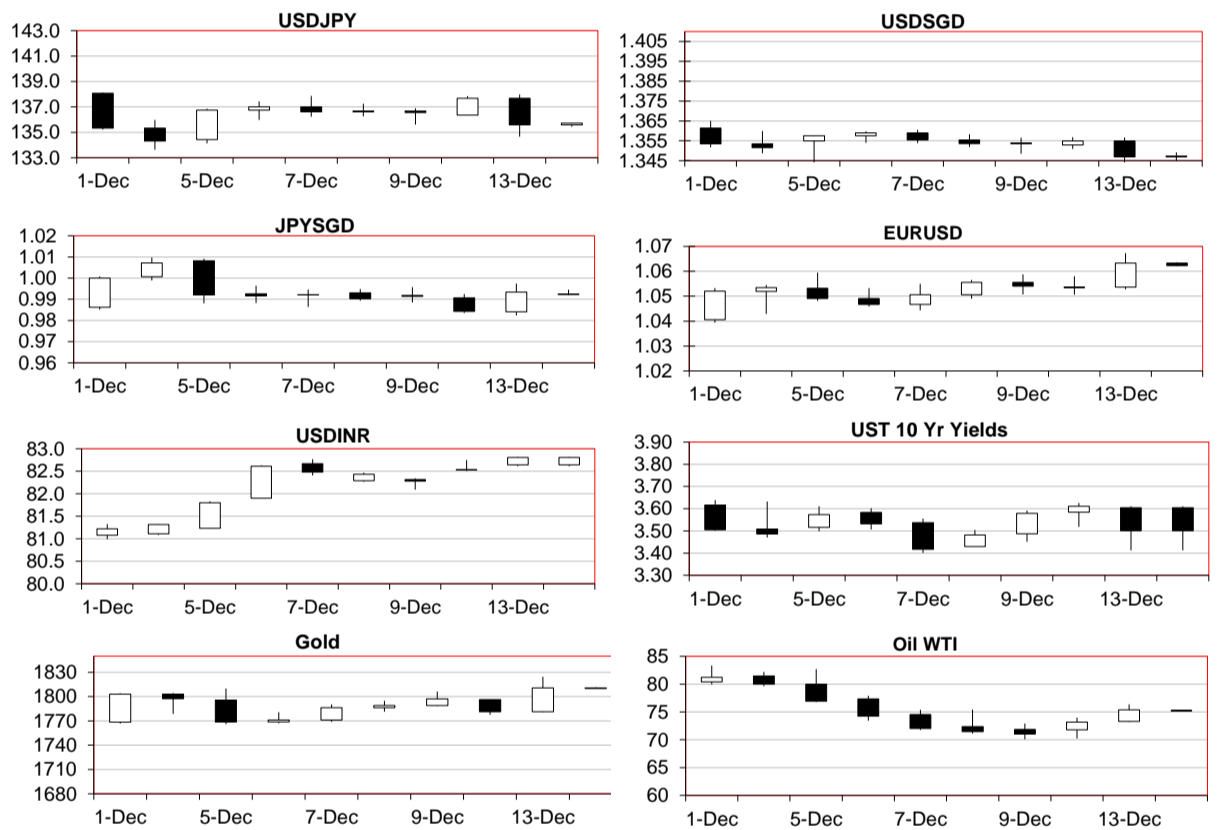
- To be precise, the **headline understates underlying inflation risks that concern the Fed**.

OVERNIGHT RESULTS

(GE) ZEW Survey (Dec): -23.3 (Mkt: -26.4; Nov: -36.7) | (US) CPI/Core YoY (Nov): 7.1%/6.0% (Mkt: 7.3%/6.1%; Oct: 7.7%/6.3%)

(US) Real Avg Hourly Earnings/Weekly YoY (Nov): -1.9%-3. (Oct: -2.7%/-3.5%)

* Past Two Weeks Movement *



- For one, the drag from core goods deflation is exaggerated by the plunge in used car prices (-2.9% MoM), which is a reversal of the COVID squeeze in supply.

- Whereas putting aside the deflation in medical services (which is not surprising as a post-COVID phenomenon), **core services inflation remains elevated**. Crucially, **shelter inflation remains uncomfortably high**, led by spot rentals (+0.8% MoM vs. owner-equivalent: +0.7%).

Fed Sweetened, Not Swayed

- And so, the latter **could remain a bugbear for the Fed, which may dwell on wage-price spiral risks** as well as inflation expectations. The upshot is that **while inflation's direction of travel is encouraging, the details exaggerate scope for a dovish pivot**.

- So, **a well-telegraphed dial-back from exceptionally aggressive 75bp hikes to a 50bp hike**, at this late-stage of policy tightening is **an expected low-bar**.

- Instead, **"peak" (how high rates go) and "persistence" (how long rates stay high) assume policy prominence**. And in that respect, the **'Dot Plot' and accompanying Fed rhetoric** may still present a **risk of a hawkish jolt given that markets have stretched the "pivot" bet** a tad too far; prematurely linking slower pace of hikes with reversal of hikes.

- A non-negligible risk is that the **dispersion of Fed 'Dot Plot' may be wider**, reflecting diverging opinions on how soon, and where, to stop the current rate hike cycle.

- And so, this may merely **set the stage for more volatility than unimpeded "risk on"**.

FX Daily Outlook

- EUR/USD: Boyant on CPI, but Fed risks are two-way; restraint ahead of 1.07.

- USD/JPY: Yield slide may tempt sub-134; but shallow on FOMC risks.

- USD/SGD: Restrained CNH gains to check SGD rallies below 1.34.

- AUD/USD: Softer OPEC oil demand outlook stifling 0.69+ rallies.

TODAY'S EVENTS

(JP) Tankan Large Mfg/Outlook (Q4): 7/6 (Mkt: 6/6; Q3: 8/9) | (JP) Large All Industry Capex (Q4): 19.2% (Mkt: 20.7%; Q3: 21.%)

(JP) Tankan Large Non-Mfg/Outlook (Q4): 19/11 (Mkt: 14/11; Q3: 17/15)

(JP) Core Machinery Orders YoY (Oct): 0.4% (Mkt: 1.5%; Sep: 2.9%) |

(KR) Unemployment rate (Nov): 2.9% (Mkt: 2.9%; Oct: 2.8%) | (IN) WPI YoY (Nov): (Mkt: 6.3%; Oct: 8.4%)

(EZ) Industrial Pdtm MoM (Oct F): (Mkt: -1.5%; Sep: 0.9%) | (Central Banks) FOMC Meeting | RBA Lowe Speech

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