

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	135.50	135.48	▼0.11	▼1.14
EUR	1.0629	1.0682	+0.0049	+0.0176
AUD	0.6852	0.6864	+0.0009	+0.0139
SGD	1.3484	1.3469	+0.0000	▼0.0085
CNY	6.9514	6.9501	▼0.0016	▼0.0199
INR	82.53	82.45	▼0.36	▼0.03
IDR	15595	15598	▼59	▼40
MYR	4.4079	4.3927	▼0.0358	▼0.0043
PHP	55.78	55.78	▼0.14	+0.31
THB	34.60	34.57	▼0.23	▼0.52

*compared with previous day CLOSE(NY)

Govt Bond Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.477%	▼2.4 bp	+6.0 bp
JPY (10YR)	0.252%	▼0.2 bp	▼0.3 bp
EUR* (10YR)	1.940%	+1.5 bp	+15.8 bp
AUD (5YR)	3.176%	▼4.0 bp	+1.1 bp
SGD (5YR)	2.863%	▼3.4 bp	▼4.1 bp
CNY (5YR)	2.687%	▼7.6 bp	▼5.0 bp
INR (5YR)	7.105%	▼2.8 bp	▼3.4 bp
IDR (5YR)	6.171%	▼3.6 bp	▼4.2 bp
MYR (5YR)	3.823%	▼5.1 bp	▼4.4 bp
PHP (5YR)	6.227%	▼9.1 bp	▼4.5 bp
THB (5YR)	2.093%	▼1.6 bp	▼2.6 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	33,966.35	▼0.42%	+1.10%
N225 (JP)	28,156.21	+0.72%	+1.70%
STOXX 50 (EU)	3,975.26	▼0.29%	+1.39%
ASX (AU)	4,100.26	▼0.12%	+0.16%
STI (SG)	3,278.57	+0.22%	+1.65%
SHCOMP (CN)	3,176.53	+0.01%	▼0.72%
SENSEX (IN)	62,677.91	+0.23%	+0.43%
JSE (ID)	6,801.75	▼0.13%	▼0.25%
KLSE (MY)	1,483.17	+0.89%	+1.11%
PSE (PH)	6,615.07	+0.50%	+1.38%
SET (TH)	1,633.36	+0.46%	+0.68%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	276.63	+0.58%	+4.04%
COPPER (LME)	8,478.25	+0.34%	+0.57%
IRON ORE (CN)	109.38	▲0.03%	+2.50%
GOLD	1,807.32	▲0.19%	+1.18%
OIL (WTI)	77.28	+2.51%	+7.32%

The Plot Thickens

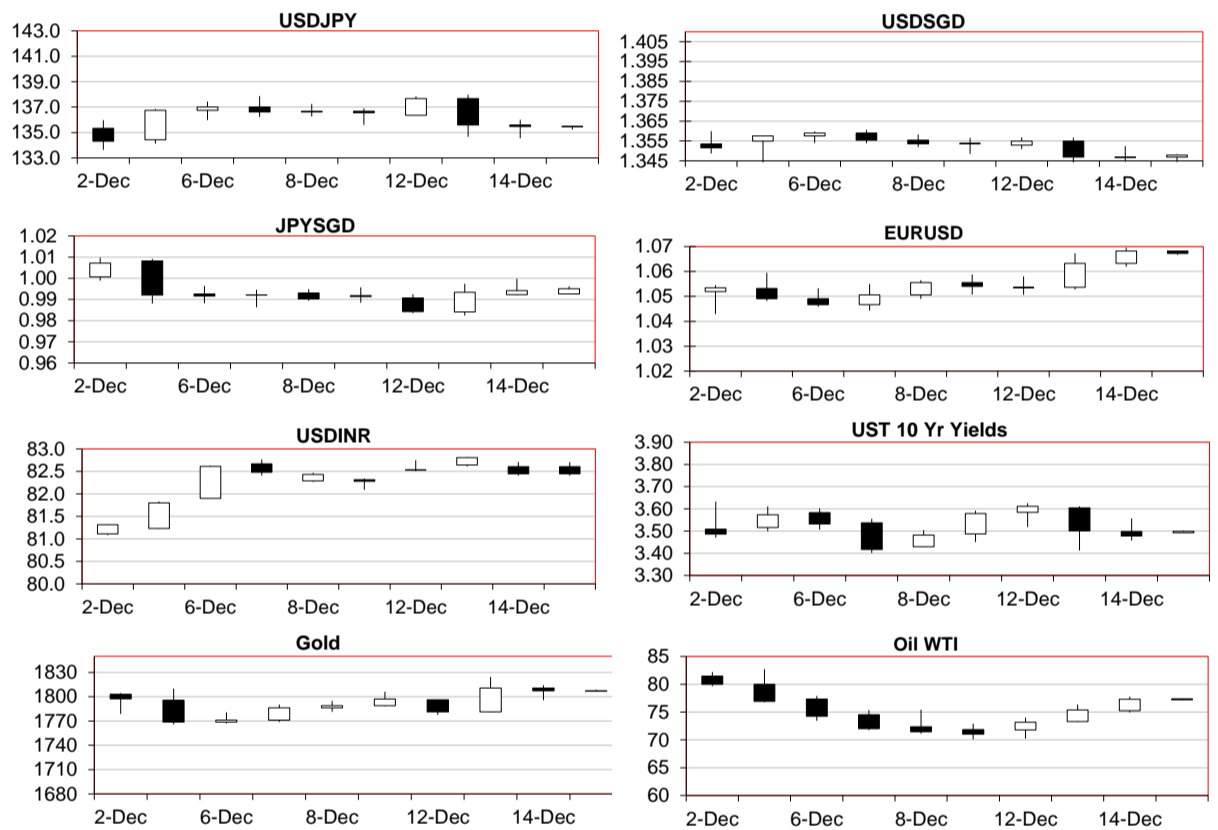
- As we had anticipated the **upward shift in the 'Dot Plot'** was somewhat of a "hawkish shot" by the Fed. **Markets acknowledge this, but nevertheless defiantly challenge** the Fed!
- For the record, the **50bp hike** by the Fed to 4.25-4.50% was almost **universally anticipated**.
- But the accompaniments to the 50bp hike had hawkish slants; by omission and commission.
- **Ironically, a virtually unchanged** (tightly-worded) **FOMC statement**, raised hawkish flags due to the **conspicuous absence of a dial back** in tightening language. Specifically, the Fed not tempering its guidance that **"ongoing increases (in rates) will be appropriate"**.
- But to be fair, one did not need a fine tooth comb to notice the **in-your-face hawkish 'Dot Plot' shift** led by a **50bps step-up in 2023 peak rate to 5.125%** (from 4.625% in Sep); with a 25bp shift up in 2024 and 2025 median rate projections to 4.125% and 3.125% respectively.
- The upshot is that the Fed is not merely indicating a **"higher" peak**, but is **emphasizing on restrictive rates "for longer"**. This was amply backed up by Fed Chair Powell's press conference. We have curated a selection of his quotes that convey this:
- **On what to focus:** *"into restrictive territory ... not so important how fast (rate hikes are) ... far more important to think what is the ultimate level"*
- **On shifting goalposts:** *"... at a certain point ... how long do we remain restrictive ... will become the most important question"*
- **On Tightening Bias:** *"We will stay the course until the job is done"*
- **On 2023 Rate Cuts:** *"Historical record suggest strongly against prematurely loosening policy"*
- **On Softer Inflation:** *"welcome ... good to see progress ... but some ways to go"*
- **Markets definitely hear, but do not completely heed, the Fed's hawkish slant.** Tellingly, OIS markets have priced peak rates in mid-2023 a tad softer below 5.00%, and crucially, price in rate cuts in H2 such that start-2024 Fed Fund rates will be lower than current rates.
- Whereas, Powell dismissed considerations of 2023 rate cuts. The **(Dot) plot thickens with the disparity between Fed guidance and market bets entrenching.**

OVERNIGHT RESULTS

(IN) WPI YoY (Nov): 5.9% (Mkt: 6.3%; Oct: 8.4%)

(EZ) Industrial Pdtn MoM (Oct F): -2.0% (Mkt: -1.5%; Sep: 0.8%)

* Past Two Weeks Movement *



TODAY'S COMMENTS & FORECAST

Open

USD/JPY	135.37	EUR/USD	1.0676
USD/SGD	1.3477	USD/THB	34.53
JPY/SGD	0.9956	USD/MYR	4.390

Forecast

USD/JPY	134.60 - 136.70
EUR/USD	1.0570 - 1.0750
AUD/USD	0.6790 - 0.6900
USD/SGD	1.3400 - 1.3550
JPY/SGD	0.9802 - 1.0067
USD/CNH	6.9280 - 6.9660
USD/INR	82.20 - 82.80
USD/IDR	15520 - 15700
USD/MYR	4.382 - 4.418
USD/PHP	55.40 - 56.00
USD/THB	34.40 - 34.80

Today's Direction

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

- This challenge by the market is ostensibly reflected in; US equities, where losses were contained 0.6-0.8%; most revealingly, in 2Y yields, where the initial post-FOMC drift higher was more than reversed (-1bp to 4.21%), and in a softer Greenback (on peak rate/pivot bets).

- Following the Fed, markets will be met with a **central bank bonanza of the ECB, BoE, SNB, Norges bank and BSP announcing policy decisions today.**

- We expect less hawkish dovish leanings in the BoE (a dovish 50bps hike), SNB, and possibly the Norges Bank. BSP too might follow up with a 50bp hike rather than 75bp flagged in Nov.

- But insofar that EUR is the biggest catalyst for USD shifts, the **question is whether ECB interpretations will be a hawkish or dovish surprise?**

ECB: Dovish or Hawkish Surprise?

- Debate around the appropriate (50bp or 75bp) magnitude of rate hike, appears to have been settled thanks to; i) the **influence of weak PMIs blunting** the policy demands from **elevated inflation**, and; ii) the **Fed's dial back to a 50bp** hike at the December FOMC overnight.

- In concert, this underscores the consensus for a dial back to 50bp. No surprise there.

- Instead, **what's hotly debated is the timing and size of QT** (quantitative tightening).

- Specifically, **how the ECB times and tempers the roll off of maturities from its €3.5trln QE-program bond balance sheet** next year (whilst €1.5trln of PEPP bond B/S is rolled over).

- With some €350bn of QE bonds maturing, guidance on QT to the upper-end of €10-30bn monthly roll off may be a hawkish cue; especially the sooner it kicks off in 2023. But even if so, **watch the initial EUR fillip for signs of indigestion on consequent "fragmentation" risks.**

FX Daily Outlook

- EUR/USD: Boyant on CPI, but post-Fed/ECB risks are two-way; breach of 1.07 may thin.

- USD/JPY: JPY crosses may add to two-way noise amid a rash of central bank meetings.

- USD/SGD: Sustaining sub-1.34 may still be a challenge unless EUR bulls take charge.

- AUD/USD: 0.69+ rallies appear to be a stretch for now still; despite a softer post-FOMCUSD.

TODAY'S EVENTS

(JP) Trade Bal (Nov): -¥2027.4b (Mkt: -¥1678.7b; Oct: -¥2166.2b) | (CH) Industrial Pdtn YoY (Nov): (Mkt: -4.0%; Oct: -0.5%)

(CH) Retail Sales: (Mkt: 6.3%; Oct: 8.4%) | (CH) FAI/Property Investments YTD YoY (Nov): (Mkt: 5.6%/-9.2%; Oct: 5.8%/-8.8%)

(US) Retail sales/Ex-Auto&Gas MoM (Nov): (Mkt: -0.2%/0.1%; Oct: 1.3%/0.9%) | (US) Empire Mfg (Dec): (Mkt: -0.9; Nov: 4.5)

(US) Philly Fed (Dec): (Mkt: -10.0; Nov: -19.4) | (US) Industrial Pdtn MoM (Nov): (Mkt: 0.1%; Oct: -0.1%)

(Central Banks)" BSP Meeting | ECB Meeting | BoE Meeting | SNB Meeting | Norges Bank Meeting

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