MIZUHO

DAILY MARKET REPORT

05-Jan-2023 Thursday

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	130.21	132.63	+1.61	▼1.84
EUR	*1.0597*	1.0604	+0.0056	▼0.0008
AUD	*0.6845*	0.6839	+0.0112	+0.0102
SGD	*1.3395*	1.3405	▼0.0048	▼0.0095
CNY	*6.8911*	6.8973	▼0.0177	▼0.0846
INR	*82.83*	82.81	▼0.08	▼0.06
IDR	*15583*	15588	▼10	▼115
MYR	*4.4019*	4.3985	▼0.0108	▼0.0270
PHP	*55.91*	55.91	+0.10	▼0.27
THB	*34.06*	34.05	▼0.36	▼0.71

*compared with previous day CLOSE(NY)

Govt Bond Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.683%	▼5.6 bp	▼20.0 bp
JPY (10YR)	0.465%	+4.3 bp	+0.3 bp
EUR* (10YR)	2.272%	▼11.7 bp	▼23.0 bp
AUD (5YR)	3.630%	▼6.7 bp	▼4.8 bp
SGD (5YR)	2.794%	▼4.6 bp	▼8.3 bp
CNY (5YR)	2.595%	▼1.1 bp	▼7.1 bp
INR (5YR)	7.230%	▼0.5 bp	▼0.7 bp
IDR (5YR)	6.655%	+41.7 bp	+44.8 bp
MYR (5YR)	3.760%	▼1.7 bp	▼10.1 bp
PHP (5YR)	6.397%	▼15.8 bp	▼1.9 bp
THB (5YR)	1.982%	▼1.3 bp	▼0.6 bp

** German bunds*

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	33,269.77	+0.40%	+1.20%
N225 (JP)	25,716.86	▼1.45%	▼2.37%
STOXX 50 (EU)	3,973.97	+2.36%	+4.34%
ASX (AU)	4,154.17	+0.55%	+1.41%
STI (SG)	3,242.46	▼0.10%	▼0.75%
SHCOMP (CN)	3,123.52	+0.22%	+1.17%
SENSEX (IN)	60,657.45	▼1.04%	▼0.42%
JSE (ID)	6,813.24	▼1.10%	▼0.54%
KLSE (MY)	1,469.55	▼0.30%	▼0.71%
PSE (PH)	6,718.50	+2.01%	+2.31%
SET (TH)	1,673.25	▼0.34%	+1.58%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	264.17	▲2.22%	▲4.75%
COPPER (LME)	8,307.00	+0.00%	▲1.41%
IRON ORE (CN)	116.05	▲0.93%	+4.26%
GOLD	1,854.56	+0.82%	+2.78%
OIL (WTI)	72.84	▼5.32%	▼7.75%

Three Take-aways:
1) Fed warns against "unwarranted easing in financial conditions" betting on 2023 rate cuts.
2) Markets nevertheless shrugged off Fed warnings; equities rose, yields eased and USD eased.
3) Even if "risk-free"rate stalled, rising credit (risk) premium for EM Asia is a non-negligible risk.

Cutting ("Unwarranted")

- To be sure, **FOMC Minutes ought to have made for pretty grim readings as the Fed warned of "higher for longer"**; *but markets shrugged this off to end on a fairly positive note.*
- Wall St more than reversed stumbles on stronger JOLTS jobs data and initial FOMC Minutes setback to notch the first gains for 2023; with S&P500 up 0.8% and Nasdaq 0.7% higher.
- UST yields extended last session's slippage in yields, albeit more modestly. 2Y-10Y inverted deeper (2Y: -2bp; 10Y: -6bp) while 5Y-3Y steepened modestly (5Y: -5bp; 30Y: -4bp).
- USD slipped modestly on token "risk on" and softer yields; as EUR lifted off mid-105 to 1.06; AUD is buoyed above 0.68; USD/SGD is testing 1.34-support. USD/JPY though is up above 132.
- On record, the **Fed was pretty cutting in warning against bets on premature rats cuts this year**. Specifically, "*unwarranted easing in financial conditions, especially if driven by a misperception* (of rate cuts in 2023) *..., would complicate* (policy)".
- Translating Fed speak, this is a warning to markets, that being too optimistic may ironically backfire. That is, insofar that premature (H2 2023) rate cut bets drive looser financial conditions, the Fed may have to tighten even more to (over-)compemsate.
- Sticky core PCE alongside strong jobs read, including ~500K overshoot in JOLTS job openings, validate Fed views of more work left to do. **Another 50-100bps of hikes is the base case.**

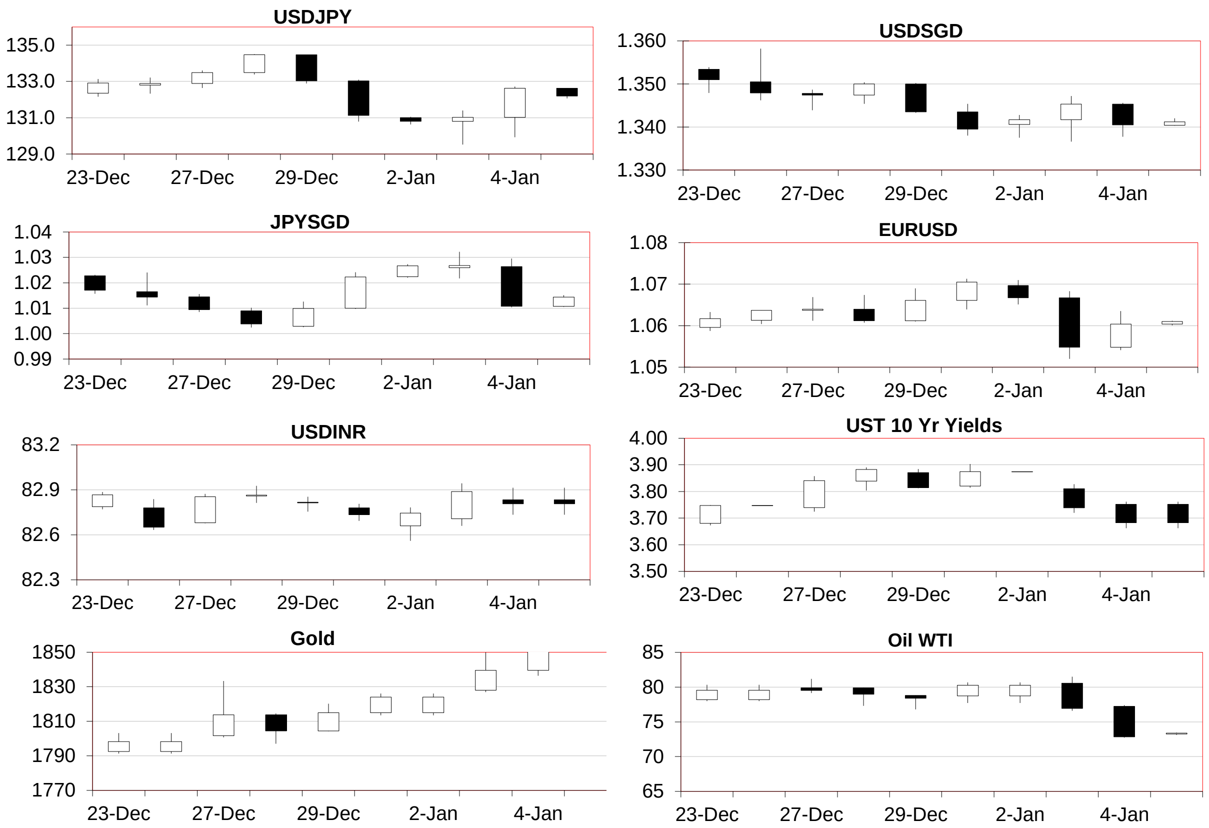
Mind the (100bp) Gap

- And the **starkest contrast** gleaned is that **none of the FOMC members see any rate cuts in 2023**, *whereas markets are pricing in significant rate cuts at the back-end* of the year.
- Consequently, this leaves a **glaring 100bp gap between market expectations** (for rates at 4.25-4.50%) **and Fed guidance** (5.25-5.50% as suggested by Fed Kashkari).
- What that means is that forward-looking markets are expecting significantly less restrictive conditions by late-2023. In which case, **a Fed that walks the talk will trigger risk re-pricing.**

OVERNIGHT RESULTS

(US) JOLTS Job Openings (Nov): 10.46m (Mkt: 10.05m; Oct: 10.51m)
(US) ISM Mfg/New Orders/Prices Paid/Emp (Dec): 48.4/45.2/39.4/51.4(Mkt: 48.5/--/42.9/--; Nov: 49.0/47.21/43.0/48.4)

*** Past Two Weeks Movement ***



TODAY'S COMMENTS & FORECAST

Open

USD/JPY	131.28	EUR/USD	1.0546
USD/SGD	1.3454	USD/THB	34.41
JPY/SGD	1.0249	USD/MYR	4.401

Forecast

USD/JPY	130.30	-	133.00
EUR/USD	1.0530	-	1.0700
AUD/USD	0.6730	-	0.6890
USD/SGD	1.3370	-	1.3480
JPY/SGD	1.0053	-	1.0345
USD/CNH	6.8800	-	6.9300
USD/INR	82.60	-	82.95
USD/IDR	15500	-	15650
USD/MYR	4.388	-	4.413
USD/PHP	55.60	-	56.20
USD/THB	33.80	-	34.25

Today's Direction

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

EM Asia: Credit Premium Upside Risks

- **Stickier EM Asia inflation**, with bouts of upside volatility, is not **a risk** to be dismissed.
- Especially *given sensitivities to volatile and "long memory" food and energy prices;*
- both of which continue to be vulnerable to price swings from disruptions.
- This, in theory, induces inflation-driven upside risks in EM Asia yields.
- But be that as it may, **inflation is not the key upside risk to yields EM Asia.**
- *Instead*, **wider credit spreads are**!
- For one, **despite sticky and uncomfortably elevated inflation**, the **"peak inflation" narrative remains intact**, **limiting inflation-driven yield rallies**;
- especially as EM Asia central banks approach terminal tightening.
- *Crucially*, the **revocation of easy money** amid rising rates and quantitative tightening (QT) compounded by **mounting risks of a recession warn of abrupt and sharp risk re-pricing**;
- and consequent **surge in credit risk premium.**
- More so given the juxtaposition of **historically and (likely) unsustainably low credit spreads** that reveal vulnerabilities to low-hanging reversion. Moreover, **on-going reversal of US-EM Asia inflation gap**; both of which **accentuate propensity to unwind "carry" trades.**
- The ***upshot is that EM Asia yields are set to rise.*** *Not because* of lingering inflation risks, *but despite* **peaking inflation/policy rates.**
- Whereas, **risk re-pricing will force exceptionally, and unsustainably, low credit spreads to widen**; as the **overriding upside risk to EM Asia yields.**

FX Daily Outlook

- EUR/USD: Rebound back above 1.06 is not a catalyst to break 1.07 decisively as caution remains.
- USD/JPY: After 132 rebound wider consolidation amid mid-130 to mis-1.32 looks likely.
- USD/SGD: Firm CNH could prompt a test sub-1.34; but SGD bulls to be cautious, not cavalier.
- AUD/USD: China coal import boost to maintain buoyancy around mid-0.68; 0.69 barrier remains.

TODAY'S EVENTS

(JP) Monetary Base YoY (Dec): -6.1% (Mkt: -6.0%; Nov: -6.4%) | **(AU) PMI-Svcs/Comp. (Dec F): 47.3/47.5 (Prelim: 46.9/47.3)**
(CH) Caixin PMI - Svcs/Comp. (Dec): (Mkt: 46.8/--; Nov: 46.7/47.0) | **(PH) CPI YoY (Dec): (Mkt: 8.2%; Nov:8.0%)**
(TH) CPI/Core YoY (Dec): (Mkt: 5.9%/3.3%; Nov: 5.6%/3.2%) | (SG) Retail Sales/Ex-Autos YoY (Nov): (Oct: 10.4%/14.3%)
(US) ADP Employment Chg (Dec): (Mkt: 150:K; Nov: 127K | **(US) Initial Jobless Claims (31-Dec): (Mkt: 225K; Prev Wk: 225K)**
(Central Banks): Fed's Bostic Speaks