

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	132.53	133.41	+0.78	+0.38
EUR	1.0603	1.0522	▼0.0082	▼0.0139
AUD	0.6807	0.6752	▼0.0087	▼0.0026
SGD	1.3415	1.3455	+0.0050	+0.0020
CNY	6.8763	6.8804	▼0.0169	▼0.0839
INR	82.75	82.55	▼0.25	▼0.26
IDR	15614	15608	+20	▼50
MYR	4.3971	4.3878	▼0.0107	▼0.0309
PHP	55.78	55.78	▼0.13	+0.05
THB	33.94	33.95	▼0.09	▼0.70

*compared with previous day CLOSE(NY)

Govt Bond Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.718%	+3.5 bp	▼9.6 bp
JPY (10YR)	0.434%	▼3.1 bp	▼2.7 bp
EUR* (10YR)	2.316%	+4.4 bp	▼12.2 bp
AUD (5YR)	3.600%	▼3.0 bp	▼7.4 bp
SGD (5YR)	2.773%	▼2.1 bp	▼7.9 bp
CNY (5YR)	2.609%	+1.4 bp	▼1.9 bp
INR (5YR)	7.232%	+0.2 bp	+0.7 bp
IDR (5YR)	6.622%	▼3.3 bp	+42.0 bp
MYR (5YR)	3.780%	+2.0 bp	▼7.9 bp
PHP (5YR)	6.474%	+7.7 bp	+8.4 bp
THB (5YR)	1.984%	+0.1 bp	▼1.2 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	32,930.08	▼1.02%	▼0.88%
N225 (JP)	25,820.80	+0.40%	▼1.05%
STOXX 50 (EU)	3,959.48	▼0.36%	+2.84%
ASX (AU)	4,178.67	+0.59%	+1.74%
STI (SG)	3,292.66	+1.55%	+1.34%
SHCOMP (CN)	3,155.22	+1.01%	+2.65%
SENSEX (IN)	60,353.27	▼0.50%	▼1.28%
JSE (ID)	6,653.84	▼2.34%	▼3.01%
KLSE (MY)	1,480.93	+0.77%	▼0.72%
PSE (PH)	6,761.33	+0.64%	+2.97%
SET (TH)	1,663.86	▼0.56%	+0.16%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	263.69	▲0.18%	▲4.46%
COPPER (LME)	8,361.50	+1.52%	▲0.57%
IRON ORE (CN)	116.20	+0.13%	+4.54%
GOLD	1,832.89	▲1.17%	+0.99%
OIL (WTI)	73.67	+1.14%	▼6.03%

Three Take-aways:

- 1) Alignment of jobs data and Fed speakers with earlier FOMC minutes weighed down on markets.
- 2) US Treasuries declined as front end yields surged, equities fell and USD strengthened.
- 3) Peak inflation should not be misconstrued and extended as turning the corner towards CB's targets.

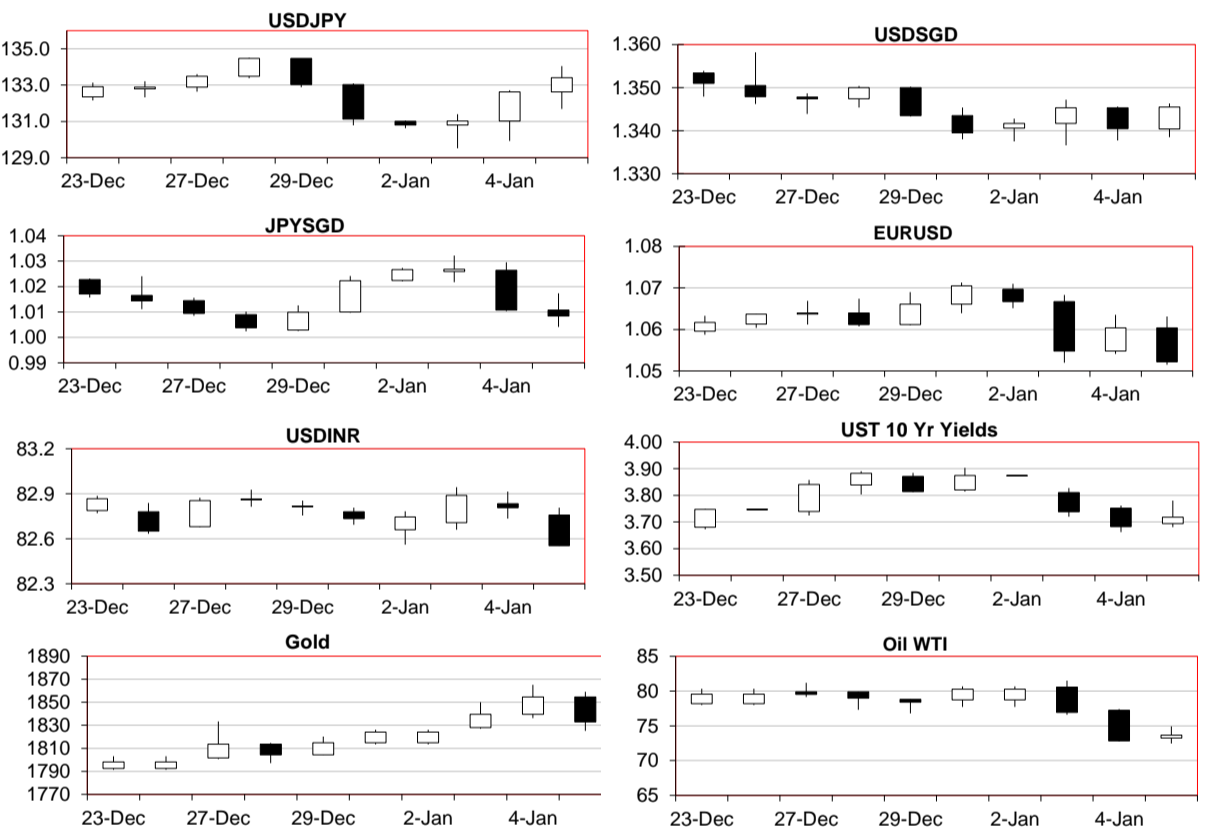
Alignment

- Lower than expected **initial jobless claims** and **stronger ADP employment change** point to a resilient labour market. **This alignment with grim readings from the FOMC minutes which we had alluded to meant that** markets were no longer able to shrug off the dismal prognosis from the Fed.
- US equities had to give up previous day gains and more, as the Nasdaq dropped 1.5% while the S&P500 and Dow declined 1.2% and 1.0% respectively. Tonight's non-farm payroll will be in firm focus alongside ISM services activity which may point to another bout of services inflation stickiness.
- This is rightly so given a data dependent Fed, with Kansas City Fed's **Esther George** stating in an interview that her forecast of peak rates is above **5% and should extend well into 2024**.
- Accordingly, UST 2Y yields surged 10.4bps while 10Y yields lagged behind with a 3.5bps increase.
- The 10-2Y yield curve inversion deepened alongside the near term forward spread (18m-3m) entrenching in inversion territory.
- The **USD strength was evident on higher UST yields and risk-off sentiments** returning amid the relentless Fed warnings. USD/JPY rose above 133 while the EUR fell to hover just above 1.05.
- Similarly, the AUD slipped towards mid-0.67 while the USD/SGD was sent back up to mid 1.34.
- Meanwhile, IMF's Gita Gopinath struck a similar tone to warn that **US inflation had yet to turn the corner**. The **case of inflation peaking and not turning the corner also extends to EM-Asia as Philippines and Thailand's data showed**.
- Thailand's headline inflation for Dec printed at 5.9%, a notch higher than Nov's 5.6% while core inflation sticks at 3.2% YoY. With Chinese tourist set to stream in and boost economic activity, core inflation sticking above 3% is more likely than not.

OVERNIGHT RESULTS

(CH) Caixin PMI - Svcs/Comp. (Dec): 48.0/48.3 (Mkt: 46.8/-; Nov: 46.7/47.0) | (PH) CPI YoY (Dec): **8.1%** (Mkt: 8.2%; Nov: 8.0%)
(TH) CPI/Core YoY (Dec): 5.9%/3.2% (Mkt: 5.9%/3.3%; Nov: 5.6%/3.2%) | (US) ADP Employment Chg (Dec): **235k** (Mkt: 150K; Nov: 127K) | (US) Initial Jobless Claims (31-Dec): **204k** (Mkt: 225K; Prev Wk: 223K)

* Past Two Weeks Movement *



TODAY'S COMMENTS & FORECAST

Open

USD/JPY	133.32	EUR/USD	1.0521
USD/SGD	1.3457	USD/THB	34.05
JPY/SGD	1.0093	USD/MYR	4.398

Forecast

USD/JPY	131.50 - 134.50
EUR/USD	1.0300 - 1.0600
AUD/USD	0.6650 - 0.6800
USD/SGD	1.3400 - 1.3550
JPY/SGD	0.9963 - 1.0304
USD/CNH	6.8800 - 6.9300
USD/INR	82.50 - 82.95
USD/IDR	15500 - 15690
USD/MYR	4.385 - 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

Philippines: Inflation Introspection

- Headline inflation rose further to 8.1% YoY in December from 8.0% in November, taking the annual average to 5.8%. This is well above Bangko Sentral ng Pilipinas (BSP) 2-4% headline inflation target range, even with BSP hiking by an aggressive 350bp in 2022.
- A closer look at the drivers of inflation suggests that price pressures are still broad-based and unlike regional peers, headline inflation has shown limited signs of peaking in the Philippines.
- Core inflation itself picked up to 6.9% YoY December from 6.5% in November, pushing the 2022 average to 3.9%. In addition, food and utilities inflation rose further in December more than offsetting the decline in transportation inflation.
- Food inflation has been inflicted by import costs woes. PHP lost -8.5% of its value to USD in 2022 raising the costs of imports significantly. Looking into 2023, PHP depreciation pressures are likely to be sustained given the economy's 'twin deficit' position.
- Core inflation may continue to be lifted by robust domestic demand while inflation expectations have continued to rise sharply. Coupled with strong labour market dynamics, reflected in strong minimum wage increases and sharply declining unemployment, we expect core inflation to remain elevated in H1 2023
- All these point to still aggressive rate hikes by BSP in Q1 2023; we expect another 75bp in hikes taking the policy rate to 6.25%. Beyond Q1, we expect headline inflation will start to ease taking the pressure off BSP. Even so, the balance of risks is tilted towards more, rather than less, hikes.

FX Daily Outlook

- EUR/USD: Higher US yields look to pressure EUR to stay below 1.06.
- USD/JPY: US yields back in focus to set buoyancy above 132 with elevated oil prices supporting.
- USD/SGD: Cautious SGD bulls remains a backstop amid CNH resilience.
- AUD/USD: A return to RBA-Fed divergence on the cards to keep pair below 0.69.

TODAY'S EVENTS

(JP) Labour/Real Cash Earnings (Nov): (Mkt: 1.7%/-2.8%; Oct: 1.4%/-2.9%) | (JP) Services PMI (Dec F): (Prelim: 51.7)
(PH) Unemployment Rate (Nov): (Oct: 4.5%) | (IN) GDP Annual Estimate YoY (2023): (Mkt: 6.8%; Prev: 8.7%) | (EZ) CPI/Core YoY (Dec P): (Mkt: 9.5%/5.1%; Nov: 10.1%/5.0%) | (US) Change in Non-farm payrolls (Dec): (Mkt: 202k; Nov: 263k) | (US) ISM Services Index (Dec): (Mkt: 55.0; Nov: 56.5) | (US) Durable Goods/Non-def Ex Air Orders (Nov F): (Mkt: -2.1%/-; Prelim: -2.1%/0.2%)

Important Information

This publication has been prepared by Mizuho Bank, Ltd. ("Mizuho") and represents the views of the author. It has not been prepared by an independent research department and it has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote be complete. This publication has been prepared for information purposes only and is not intended by Mizuho or its affiliates to constitute investment, legal, accounting, tax or other advice of any kind and all recipients of this publication are advised to contact independent advisors in order to evaluate the publication, including, without limitation, the suitability of any security, commodity, futures contract or instrument or related derivative (hereinafter, a "financial instrument"), product or strategy herein described. This publication is not intended to be relied upon as advice to investors or potential investors and does not take into account investment objectives, financial situation or needs of any particular investor. It is not intended for persons who are Retail Clients within the meaning of the United Kingdom's Financial Conduct Authority rules nor for persons who are restricted in accordance with US, Japanese, Singapore or any other applicable securities laws.

This publication has been prepared for information purposes only and is not intended by Mizuho to market any financial instrument, product or service or serve as a recommendation to take or refrain from taking any particular course of action or participate in any trading or other strategy. This publication is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or any of the assets, businesses or undertakings described herein, or any other financial instrument, nor is it an offer to participate in any trading or other strategy, nor a disclosure document under applicable laws, rules, regulations or guidelines. Nothing contained herein is in any way intended by Mizuho or its affiliates to offer, solicit and/or market any financial instrument, product or service, or to act as any inducement to enter into any contract or commitment whatsoever. Neither the author, Mizuho nor any affiliate accepts any liability whatsoever with respect to the use of this publication or its contents or for any errors or omissions herein.

Mizuho and its affiliates, connected companies, employees or clients may take the other side of any order by you, enter into transactions contrary to any recommendations contained herein or have positions or make markets or act as principal or agent in transactions in any securities mentioned herein or derivative transactions relating thereto or perform or seek financial or advisory services for the issuers of those securities or financial instruments.

All of the information contained in this publication is subject to further modification without prior notice and any and all opinions, forecasts, projections or forward-looking statements contained herein shall not be relied upon as facts nor relied upon as any indication of future results. Opinions stated in this publication are subject to change without notice. Future results may materially vary from such opinions, forecasts, projections or forward-looking statements. The information contained in this publication may not be current due to, among other things, changes in the financial markets or economic environment. Mizuho has no obligation to update any information contained in this publication. Past performance is not indicative of future performance. This is a strictly privileged and confidential publication. This publication contains information addressed only to a specific individual and is not intended for distribution to, or use by, any person other than the named addressee or any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Save with Mizuho's prior written consent, you may not disclose, divulge, reproduce or furnish any information contained herein to any other party. Please notify the sender immediately if you have mistakenly received this publication.

Singapore: Mizuho is licensed as a bank under the Banking Act (Chapter 19) of Singapore, and is regulated by the Monetary Authority of Singapore.

Japan: Mizuho is authorised and regulated by the Financial Services Agency of Japan.

United Kingdom / European Economic Area: In the UK, Mizuho is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MHBK's regulation by the Prudential Regulation Authority are available upon request. This publication may also be distributed by Mizuho International plc ("MHI"). MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

United States: This publication is not a "research report" as defined in Commodity Futures Trading Commission ("CFTC") Regulations 1.71 and 23.605. The content of publications distributed by Mizuho Securities USA Inc. ("MSUSA") is the responsibility of MSUSA. The content of publications distributed directly to US customers by Mizuho is the responsibility of Mizuho. US investors must effect any order for a security that is the subject of this report through MSUSA.

© 2014 Mizuho Bank Ltd.