

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	128.73	128.12	▼0.46	▼4.14
EUR	1.0828	1.0788	▼0.0034	+0.0055
AUD	0.6963	0.6988	+0.0033	+0.0099
SGD	1.3222	1.3202	▼0.0010	▼0.0116
CNY	6.7693	6.7719	+0.0337	▼0.0076
INR	81.77	81.77	+0.15	▼0.02
IDR	15167	15165	+120	▼408
MYR	4.3279	4.3258	+0.0085	▼0.0467
PHP	54.84	54.83	+0.24	▼0.05
THB	33.05	33.11	+0.13	▼0.42

*compared with previous day CLOSE(NY)

Govt Bond Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.548%	+4.4 bp	▼7.1 bp
JPY (10YR)	0.524%	▼0.3 bp	+1.6 bp
EUR* (10YR)	2.091%	▼8.4 bp	▼21.7 bp
AUD (5YR)	3.335%	▼1.0 bp	▼14.0 bp
SGD (5YR)	2.809%	+3.9 bp	+4.5 bp
CNY (5YR)	2.715%	▼1.7 bp	+1.6 bp
INR (5YR)	7.179%	+1.1 bp	+0.4 bp
IDR (5YR)	6.446%	▼2.5 bp	▼3.8 bp
MYR (5YR)	3.788%	▼0.6 bp	+2.0 bp
PHP (5YR)	5.893%	▼4.6 bp	▼54.0 bp
THB (5YR)	1.949%	+2.5 bp	+2.9 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	33,910.85	▼1.14%	+0.61%
N225 (JP)	26,138.68	+1.23%	▼0.14%
STOXX 50 (EU)	4,174.33	+0.42%	+2.88%
ASX (AU)	4,294.53	▼0.19%	+2.14%
STI (SG)	3,280.51	▼0.09%	+0.54%
SHCOMP (CN)	3,224.25	▼0.10%	+1.73%
SENSEX (IN)	60,655.72	+0.94%	+0.90%
JSE (ID)	6,767.34	+1.19%	+2.19%
KLSE (MY)	1,499.38	+0.39%	+0.96%
PSE (PH)	7,014.04	▼0.45%	+3.81%
SET (TH)	1,681.04	▼0.23%	▼0.61%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	277.22	+0.47%	+3.41%
COPPER (LME)	9,282.99	+2.14%	+4.41%
IRON ORE (CN)	121.02	+0.42%	+0.85%
GOLD	1,908.69	▲0.38%	+1.69%
OIL (WTI)	80.18	+0.40%	+6.74%

Three Take-aways:

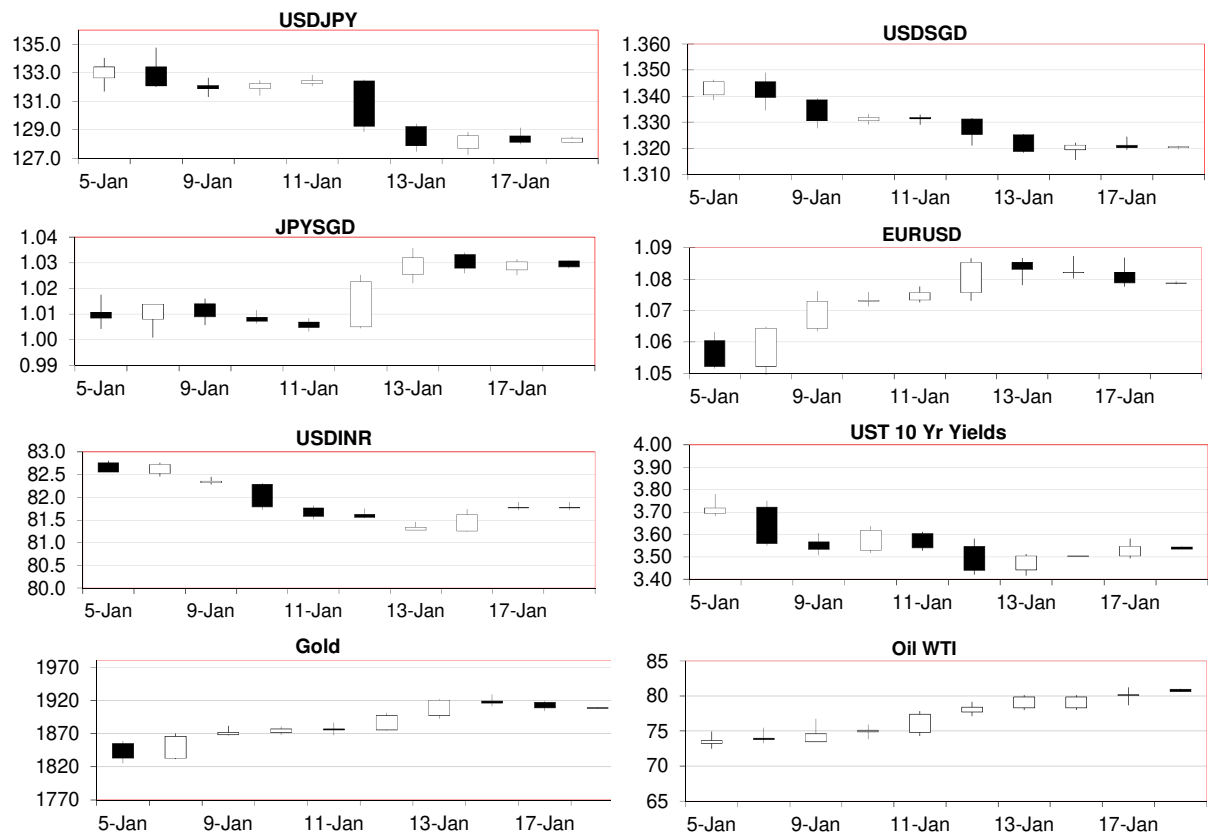
- 1) Focus is squarely on the BoJ and what it yields, pun unintended.
- 2) Range-bound USD and US equity trading suggests cautious sentiment on the day.
- 3) Recent Fed speak remains focussed on inflation risks, suggesting the Fed will not back down soon.

Yielding to BoJ

- US equities traded sideways on Tuesday (S&P: -0.2%; NASDAQ: +0.1%; Dow Jones: -1.1%) with weak data, mixed banking sector results and still cautious Fed speak cues.
- The US Empire Manufacturing Survey showed a sharp contraction to -32.9 in January from -11.2 in December, well below consensus expectations of -8.7.
- Morgan Stanley and Goldman Sachs reported distinctly divergent results ringing some caution.
- Fed speak, meanwhile, was still squarely focussed on inflation risks. Richmond Fed President Thomas Barkin said that while recent inflation reports were encouraging, inflation was still too high and that the Fed would still need "to continue to move the needle", i.e. tighten policy.
- Caution also dictated fairly range-bound trading in UST yields and the DXY index.
- The attention today will be squarely on BoJ. As we noted yesterday, BoJ remains in a bind.
- Since the surprise widening of the YCC target band (from +/-0.25% to +/-0.50%) in December, which effectively acted as a hike in YCC target, markets have been testing the upper bound in anticipation of further tightening (de facto or explicit).
- If Governor Kuroda's assertions hold, we ought to expect a hold for now, with a more data-dependent calibration being signalled ahead of Governor Kuroda's end of term in April.
- But a surprise move to tweak YCC or end negative rates will not shock us either. Given inherent pressures from global policy divergence, this is a matter of time and/or execution.
- USD/JPY was trading in a relatively range-bound manner (128-129) through Tuesday; gains also accrued in GBP, AUD, NZD and CAD versus USD. EUR/USD, however, fell to below 1.08 as reports emerged of the ECB potentially scaling back rate hikes from March.
- Within EM Asia FX, exuberance around China's re-opening gave way to caution following weak activity data. CNY/CNH gave up recent gains versus USD while USD/IDR move upward suggests that BI will need to tread cautiously as its meeting on 19 January (more below).

OVERNIGHT RESULTS

(CH) Ind Pdn YoY (Dec): 1.3% (Mkt: 0.1%; Nov: 2.2%) | (CH) GDP YoY/QoQ/YTD (Q4): 2.9%/0.0/3.0% (Mkt: 1.6%/-1.1%/2.7%; Q3: 3.9%/3.9%/3.0%) (GE) ZEW Survey Expectations (Jan): 16.9 (Mkt: -15.0; Dec: -23.3) | (US) Empire Manufacturing (Jan): -32.9 (Mkt: -36.0)

Past Two Weeks Movement *

TODAY'S COMMENTS & FORECAST
Open

USD/JPY	128.28	EUR/USD	1.0788
USD/SGD	1.3204	USD/THB	33.00
JPY/SGD	1.0294	USD/MYR	4.325

Forecast

USD/JPY	125.00 - 130.00
EUR/USD	1.0700 - 1.0900
AUD/USD	0.6900 - 0.7030
USD/SGD	1.3160 - 1.3270
JPY/SGD	1.0123 - 1.0616
USD/CNH	6.7300 - 6.7850
USD/INR	81.50 - 82.00
USD/IDR	15000 - 15280
USD/MYR	4.320 - 4.400
USD/PHP	54.45 - 55.20
USD/THB	32.70 - 33.35

Today's Direction

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

Bank Indonesia: Still In Need of Hawkish Conviction

- BI needs to convince market participants of a firmly hawkish stance at its 19 Jan meeting.
- While BI is on course for a 25bp hike, the tone it strikes will be equally important.
- At the last meeting on 22 December, BI's hawkish tone was unconvincing leading to some IDR performance to end 2022. Mainly as BI was more sanguine around inflation risks than expected while on the external risks, its tone was also more muted.
- Since then, the December headline and core inflation print rose to 5.5% YoY and 3.4% YoY from 5.4% and 3.3% in November; 6-month forward income expectations picked up in December and activity data has remained firm, albeit with incipient signs of a slowdown.
- Importantly, BI Governor Perry Warjiyo warned of sticky inflationary pressures despite lower headline inflation of 3-4%; this, we expect, mainly refers to food and core inflation pressures.
- President Jokowi himself warned off an "upward trend" in the price of staples such as rice, eggs and tomatoes re-affirming elevated price pressures.
- These data imply that BI cannot afford to put a break on rate hikes, just yet, or even signal that to be the case as it risks undermining BI's inflation fighting efforts thus far.
- As such, we continue to expect BI to hike its policy rate by a cumulative 50bp in H1 2023, before pausing for the rest of 2023.
- The pause will be justified by weaker economic growth. Governor Warjiyo expects GDP growth to slow to 5% in 2023 from an est. 5.25% in 2022.

FX Daily Outlook

- EUR/USD: Lagarde's speech at Davos will be closely watched for hawkish cues and support at 1.08.
- USD/JPY: Surprise tightening from BoJ see 125-126 levels being tested; else, 128-129 remains.
- USD/SGD: Traction above 1.32 likely sustained as China risks persists.
- AUD/USD: USD weakness remains supportive of 0.7 tests even if commodity prices waver.

TODAY'S EVENTS

(US) PPI/Ex Food and Energy YoY (Dec): (Mkt: 6.8%/5.5%; Nov: 7.4%/6.2%) | (US) Retail Sales Adv./ Ex Auto & Gas MoM (Dec): (Mkt: -0.9%/-0.2%; Nov: -0.6%/-0.2%) | (US) Industrial Production MoM (Dec): (Mkt: -0.1%; Nov: -0.2%) | (EZ) CPI/Core YoY (Dec): (Mkt: 9.2%/5.2%; Nov: 9.2%/5.2%) | (JP) Core Machine Orders YoY (Nov): (Oct: 0.4%) | **Central Banks: Bank of Japan meeting**

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