

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	132.16	131.07	▼1.59	+0.98
EUR	1.0725	1.0726	+0.0000	▼0.0137
AUD	0.6928	0.6959	+0.0076	▼0.0096
SGD	1.3269	1.3242	▼0.0036	+0.0103
CNY	6.7867	6.7846	▼0.0118	+0.0293
INR	82.74	82.70	▼0.04	+0.78
IDR	15144	15145	+90	+155
MYR	4.3047	4.3025	+0.0438	+0.0285
PHP	55.06	55.09	+0.69	+0.43
THB	33.66	33.61	▼0.07	+0.60

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.674%	+3.4 bp	+16.7 bp
JPY (10YR)	0.501%	▼0.4 bp	+0.5 bp
EUR* (10YR)	2.349%	+5.3 bp	+6.3 bp
AUD (5YR)	3.354%	+14.8 bp	+6.5 bp
SGD (5YR)	2.858%	+1.9 bp	+0.7 bp
CNY (5YR)	2.682%	▼0.4 bp	▼1.3 bp
INR (5YR)	7.167%	▼0.4 bp	▼4.5 bp
IDR (5YR)	6.386%	+3.3 bp	+0.7 bp
MYR (5YR)	3.503%	+5.4 bp	▼8.4 bp
PHP (5YR)	5.943%	+13.7 bp	+13.3 bp
THB (5YR)	2.073%	+0.6 bp	▼1.6 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	34,156.69	+0.78%	+0.21%
N225 (JP)	27,685.47	▼0.03%	+1.31%
STOXX 50 (EU)	4,209.31	+0.09%	+1.10%
ASX (AU)	4,309.87	+0.14%	+1.27%
STI (SG)	3,380.84	▼0.15%	+0.45%
SHCOMP (CN)	3,248.09	+0.29%	▼0.23%
SENSEX (IN)	60,286.04	▼0.37%	+1.24%
JSE (ID)	6,935.30	+0.89%	+1.40%
KLSE (MY)	1,476.38	▼0.95%	▼0.61%
PSE (PH)	6,881.26	▼0.80%	+1.30%
SET (TH)	1,680.49	▼0.10%	+0.54%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	270.79	+1.72%	▲2.62%
COPPER (LME)	8,893.00	+0.62%	▲3.33%
IRON ORE (CN)	122.27	▲1.59%	▲0.89%
GOLD	1,873.10	+0.30%	▲2.87%
OIL (WTI)	77.14	+4.09%	▼2.19%

TODAY'S COMMENTS & FORECAST

Open

USD/JPY	131.05	EUR/USD	1.0730
USD/SGD	1.3237	USD/THB	33.51
JPY/SGD	1.0101	USD/MYR	4.301

Forecast

USD/JPY	130.00 - 132.20
EUR/USD	1.0640 - 1.0790
AUD/USD	0.6880 - 0.7070
USD/SGD	1.3180 - 1.3300
JPY/SGD	0.9970 - 1.0000
USD/CNH	6.7640 - 6.8180
USD/INR	82.40 - 83.30
USD/IDR	14950 - 15120
USD/MYR	4.250 - 4.310
USD/PHP	54.00 - 54.90
USD/THB	33.28 - 33.80

Today's Direction

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

Three Take-aways:

- 1) "Risk on" as Powell's allusion to "further hikes" overlooked in favour of "dis-inflationary process".
- 2) The RBI is set to hike further, albeit moderated to 25bp (Dec: +35bp) as dis-inflation is assessed.
- 3) Despite RBI hike and fiscal consolidation, rupee is beset by "twin deficit" and headline bugbears.

Dis-inflation Cheerer?

- Less hawkish than feared remarks from Fed Powell reignited markets rallies; as S&P surged 1.3% while Nasdaq jumped 1.9%. USD was a tad softer as front-end (2Y) yield edged down 2-3bp to 4.45%; although 10Y yields picked up 2bp to 3.66%.
- To be more specific, it appears that markets had a bout of selective hearing/focus.
- In particular, Fed Powell's allusion to "dis-inflationary process ... has begun" dominated the take-away for markets; serving as a selective excuse to extend "Fed pivot rallies".
- Whereas his message that it (dis-inflationary process) "has a long way to go ... take quite a bit of time ... will be bumpy"; thereby requiring "further rate increases ... need to hold policy at a restrictive level for a period of time" was arguably discounted.
- Funnily enough, the RBA's policy guidance on further "hikes" in the plural was seized by markets as a hawkish cue, triggering relative AUD out-performance on slight USD slip.
- Dis-inflation is also a relief for the RBI; albeit limited, as it merely tempers tightening bias.

RBI: Tempering, Not Terminating, Tightening

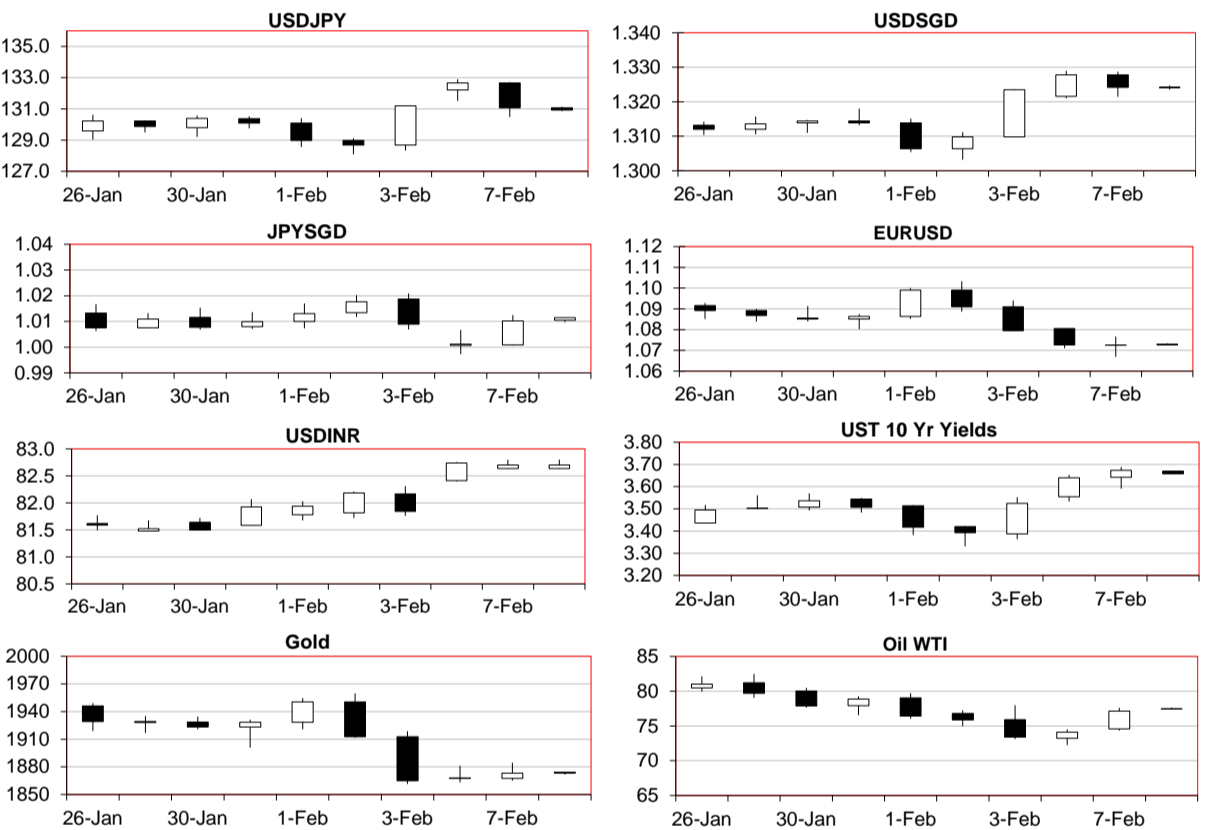
- As of now, fiscal consolidation alongside easing headline inflation only allow the RBI to temper, not terminate, its tightening bias. To be sure, 0.5%-pt of fiscal consolidation, spares the RBI of compensatory policy tightening (to lean against a larger fiscal impulse).
- Nonetheless, a 5.9% Budget deficit is significant; and sharp rise in capex/public spending may still threaten to inflame remaining inflation embers. Especially given that despite subsiding, inflation is uncomfortably elevated; close to the top end of 4% +/- 2%-pt range.
- Crucially, pronounced twin deficit vulnerabilities (wider C/A and sustained, significant fiscal deficit) tilt optimal policy towards more tightening in the interest of macro-stability.
- And that necessarily means that the RBI cannot forsake its tightening bias just yet.

OVERNIGHT RESULTS

(JP) Leading/Coincident Index (Dec P): 97.2/98.9 (Mkt:97.1/ 98.9; Nov: 97.7/99.3)

(AU) Trade Balance (Dec): A\$12.24bn (Mkt: A\$12.5bn; Nov: A\$1.32bn) | (MY) Ind Pctn YoY (Dec): 3.0% (Mkt: 4.5%; Nov: 4.8%) (PH) CPI

YoY Post-Two Weeks Movement (Mkt) (US) Trade Bal (Dec): -\$67.4bn (Mkt: -\$68.6bn; Nov: -\$61.1bn)



- But that said, with easing price pressures, the RBI has room to moderate the amplitude of rate hike; from 35bps in the last meeting in December, to 25bp this time, thereby lifting the Repo rate to 6.50%. Beyond this, the RBI may have some space to pause and assess; as real rates are projected to be meaningfully positive (+0.5-1.0%) in coming months.

Unpacking Rupee (Bug)Bears

- Question is, why rupee bugbears persist despite encouraging fiscal consolidation, signs of dis-inflation and RBI tightening (credibly lifting real rates into meaningfully positive territory).
- And the short answer is that rupee's usual "twin deficit" vulnerabilities are amplified by a confluence of inflation, fiscal constraints and headline (notably, Adani) risks.
- For a start, sticky inflation, and attendant erosion in real returns undermines rupee traction.
- Moreover, wider C/A deficit (despite peak oil) exposes "twin deficit" vulnerabilities. And to be sure, softer oil is a necessary, but insufficient, to restore rupee strength.
- Crucially, a sharp capitulation of portfolio flows, amplified by the Adani meltdown render pre-existing rupee vulnerabilities far more acute; as India's external financing gap is conspicuously exposed. In turn, risk of self-reinforcing outflow-depreciation is heightened.
- Resultant erosion India's FX reserve buffer also chips away at future rupee resilience.
- And so, clearly being a growth darling does not absolve rupee of "twin deficit", lingering "sticky" inflation and headlines (Adani) risks. For now, the risk is that rupee will continue to be an underperformer, with a test above 83-84 par for the course if risk aversion persist. And any relief in Q2 (sub-81) could prove temporary if global recession risks overtake. More durable rupee traction will probably only begin to surface unsteadily in late 2023/early 2024.

FX Daily Outlook

- EUR/USD: Post-Powell USD slip an excuse to edge up, not an enduring reason to rally past 1.08.
- USD/JPY: Slide on post-Powell remarks reflect opportunistic moves; support at 130 though.
- USD/SGD: Slip to mid-1.32 a reflection of USD slip, not conviction of sustained SGD rally.
- AUD/USD: Hawkish read of RBA's further "hikes" buoys, but falls short of 0.70+ boost.

TODAY'S EVENTS

(JP) Current Account/Trade (Dec): ¥33.4b/¥1225.6b (Mkt: ¥112.0b/-¥1115.7bn; Nov: ¥1803.6b/-¥1537.8b)

(KR) Current Account/Goods (Dec): \$2.67b/- \$0.46b (Nov: -\$0.62b/- \$1.57b) | (PH) Unemployment Rate (Dec): (Nov: 4.2%)

(JP) Eco Watchers Survey Current/Outlook (Jan): (Mkt: 48.2/47.6; Dec: 47.9/47.0) |

(US) MBA Mortgage Applications (3-Feb): (Prev: -9.0%)

Central Banks: RBI Meeting | ECB's Knot speaks | Fed's Williams, Barr, Bostic, Kashkari & Waller speak

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