

**MARKET SUMMARY**

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	134.73	134.84	▼0.17	+0.68
EUR	1.0656	1.0605	▼0.0043	▼0.0084
AUD	0.6830	0.6804	▼0.0049	▼0.0099
SGD	1.3395	1.3405	▼0.0001	+0.0046
CNY	6.8940	6.8929	+0.0134	+0.0379
INR	82.83	82.86	+0.06	+0.05
IDR	15201	15202	+12	▼2
MYR	4.4383	4.4435	+0.0107	+0.0512
PHP	55.17	55.19	+0.11	+0.00
THB	34.58	34.59	+0.02	+0.28

\*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.916%	▼3.7 bp	+11.1 bp
JPY (10YR)	0.506%	+0.0 bp	▼0.1 bp
EUR* (10YR)	2.520%	▼0.9 bp	+4.5 bp
AUD (5YR)	3.662%	+3.3 bp	+11.8 bp
SGD (5YR)	3.107%	+3.7 bp	+6.6 bp
CNY (5YR)	2.705%	▼0.8 bp	+2.3 bp
INR (5YR)	7.398%	+4.7 bp	+10.6 bp
IDR (5YR)	6.462%	+6.2 bp	+3.9 bp
MYR (5YR)	3.637%	+3.6 bp	+2.0 bp
PHP (5YR)	5.906%	+0.0 bp	▼2.5 bp
THB (5YR)	2.177%	+3.6 bp	+3.7 bp

\* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	33,045.09	▼0.26%	▼3.17%
N225 (JP)	27,104.32	▼1.34%	▼1.45%
STOXX 50 (EU)	4,242.88	▼0.18%	▼0.87%
ASX (AU)	4,322.65	▼0.62%	▼1.08%
STI (SG)	3,300.04	▼0.21%	+0.59%
SHCOMP (CN)	3,291.15	▼0.47%	+0.32%
SENSEX (IN)	59,744.98	▼1.53%	▼2.50%
JSE (ID)	6,809.97	▼0.92%	▼1.51%
KLSE (MY)	1,464.00	▼0.68%	▼1.63%
PSE (PH)	6,699.23	▼1.50%	▼1.80%
SET (TH)	1,659.48	▼0.55%	+0.73%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	266.10	▲0.89%	▲1.58%
COPPER (LME)	9,183.50	+0.00%	+4.04%
IRON ORE (CN)	126.84	▲0.14%	+1.95%
GOLD	1,825.39	▲0.53%	▲0.58%
OIL (WTI)	73.95	▼2.90%	▼5.90%

**Three Take-aways:**

- 1) Markets in consolidation mode as incoming data double down on further rate hikes from the Fed.
- 2) Strong DXY index implies EM Asia FX will likely remain on the back foot.
- 3) Specifically, MYR will be watched closely ahead of Malaysia 2023 Budget announcement.

**In Consolidation Mode**

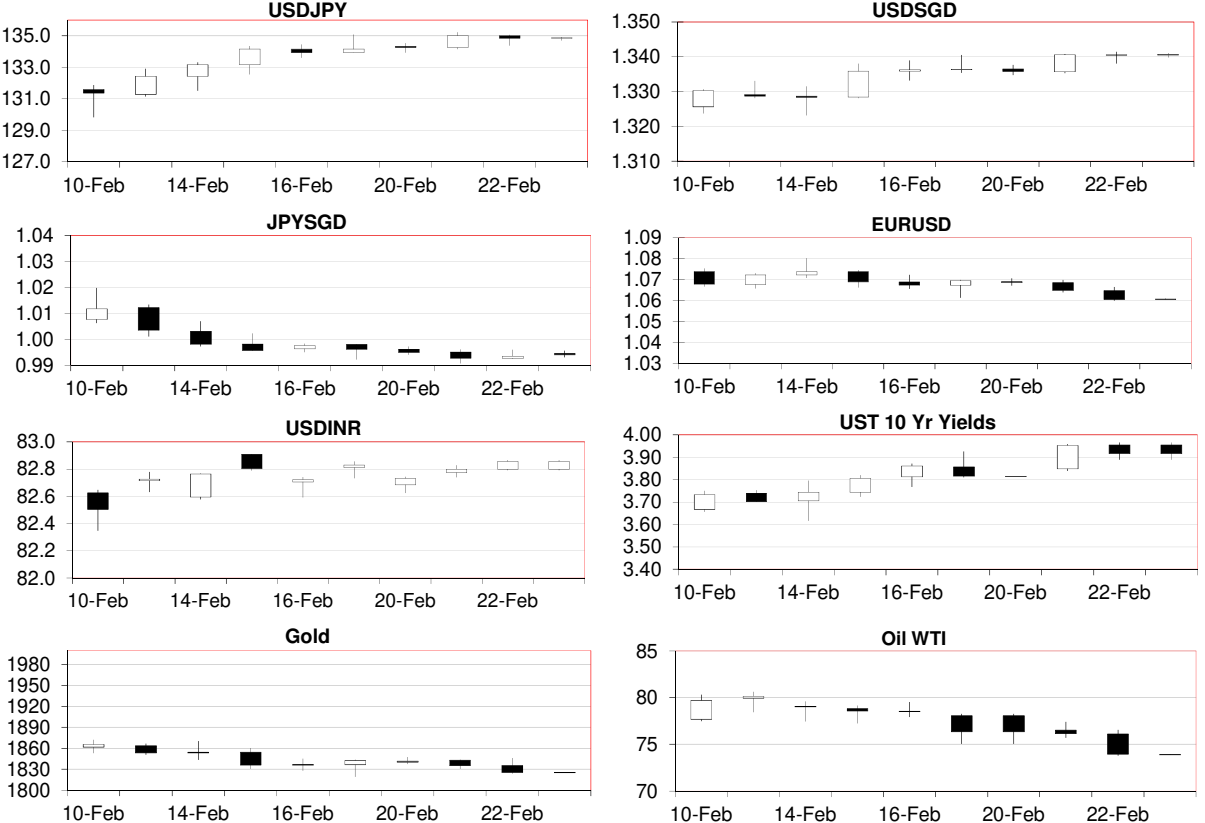
- US markets have apparently shifted to consolidation mode after readjusting expectations around Fed rate hikes; incoming economic data has catalysed a doubling down on this sentiment.
- US equities closed higher on Thursday but are on track for weekly losses (S&P: -1.6%; Dow: -2.0%; NASDAQ: -1.7%) while UST moves remained volatile.
- Initial unemployment claims for the week ending 18 February eased pointing to labour market strength. Although, US Q4 headline GDP growth was revised down in its second estimate, the private consumption components were revised higher pointing to consumer resilience.
- As such, Fed funds markets are now pricing in three incremental 25bp hikes, taking the peak rate to 5.36% in July.
- The DXY index held onto modest gains through Thursday; expectations are for a strong USD backdrop to sustain as PCE deflator (out today) is likely to continue to justify the Fed's stance.
- Meanwhile, EM Asia FX is more likely than not to remain on the back foot. MYR will be in the spotlight ahead of the 2023 Budget announcement by PM Anwar (more below).

**Malaysia Budget 2023 v2.0: Old Wine In A New Bottle**

- Budget 2023 is touted to be different from the budget issued under the previous government in October. This is in particular reference to the government introducing a targeted subsidy program on fuel and electricity to scale back a ballooning subsidy bill;
- Subsidies are expected to account for 3.3% of GDP in 2022 from an average of 1.6% in 2019-21.
- But for all intense and purposes, the fiscal math may not be very different from October.
- The October budget had accounted for subsidies to narrow to 2.1% of GDP, which requires cuts beyond assumptions of lower global oil prices; with the introduction of a targeted subsidy mechanism. Admittedly, few details on implementation were provided in October.

**OVERNIGHT RESULTS**

(SG) CPI/Core YoY (Jan): (Mkt: 7.1%/5.7%; Dec: 6.5%/5.1%) | (EZ) CPI/Core YoY (Jan F): (Mkt: 8.6%/5.2%) | (US) Chicago Fed National Activity Report (Jan F): (Mkt: 0.1%) | (US) GDP Annualized QoQ (Q4 S): (Prelim: 2.9%)

**Past Two Weeks Movement**

**TODAY'S COMMENTS & FORECAST**
**Open**

USD/JPY	134.98	EUR/USD	1.0652
USD/SGD	1.3403	USD/THB	34.66
JPY/SGD	0.9929	USD/MYR	4.431

**Forecast**

USD/JPY	133.50 - 135.40
EUR/USD	1.0550 - 1.0660
AUD/USD	0.6750 - 0.6870
USD/SGD	1.3340 - 1.3470
JPY/SGD	0.9852 - 1.0090
USD/CNH	6.8880 - 6.9260
USD/INR	82.00 - 83.10
USD/IDR	15150 - 15300
USD/MYR	4.428 - 4.450
USD/PHP	54.80 - 55.48
USD/THB	34.50 - 35.10

**Today's Direction**

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

- A normalisation of revenue collections on account of lower global commodity prices and dividend payouts from Petronas (MYR35bn from MYR50bn in 2022) could undermine the government's effort to boost capex.

- PM (and FM) Anwar has indicated a preference towards expenditure rationalisation over implementing new sources of revenue; diminishing prospects of imminent GST restoration.

- Fiscal consolidation beholden to expenditure rationalisation imposes a fiscal tightrope.

- Expenditures (apart from subsidies) are hard to rationalise: emoluments tend to be sticky while debt servicing costs have increased significantly following the pandemic.

- As such, headline fiscal consolidation may not be very different from the October budget; the 2023 deficit was pegged at 5.5% of GDP from an expected 5.8% of GDP in 2022.

- The silver lining is that even modest fiscal consolidation, while signalling a willingness to maintain tight fiscal policy despite a weakening growth backdrop, will set in motion more sustainable debt dynamics. Government debt stood at 60.4% of GDP in 2022 from 52.4% in 2019 on pandemic support.

- BNM, notwithstanding a complete removal of fuel subsidies which shock inflation higher, and an outcome to which we assign a low probability, will likely look through one-off fuel price adjustments (from an adjustment of the subsidy mechanism) as temporary.

- Moreover, with a clear growth slowdown underway (GDP contracted on a sequential QoQ SA basis in Q4), and fiscal policy remaining tight, BNM is likely stay on a prolonged hold rather than

**FX Daily Outlook**

- EUR/USD: Dollar deference continues as dips below mid-1.05 cannot be ruled out.
- USD/JPY: Incoming BoJ Governor Ueda's testimony will be watched closely for YCC clues.
- USD/SGD: SGD will be subjected to USD volatility from Fed and fear factors.
- AUD/USD: Pressure from USD can see pair test sub-0.68 levels.

**TODAY'S EVENTS**

(US) New Home Sales (Jan): (Mkt: 620k; Dec: 616k) | (US) U. of Mich. Sentiment/Expectations (Feb F): (Mkt: 66.4/-; Prev: 66.4/62.3) | (US) U. of Mich. 1 Yr/5-10Yr Inflation (Feb F): (Prev: 4.2%/4.9%) | (US) PCE/Core PCE Deflator YoY (Jan): (Mkt: 5.0%/4.3%; Dec: 5.0%/4.4%) | (US) Kansas City Fed Manf. Activity (Feb): (Jan: -1.0) | (SG) Industrial Production YoY (Jan): (Mkt: 2.9%; Dec: -3.1%) | (MA) CPI YoY (Jan): (Mkt: 3.7%; Dec: 3.8%) | (MA) Budget 2023 Announcement

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