

## Three Take-Aways

- 1) **US government likely to reopen soon while the White House flags possibility of jobs and CPI report not being released.**
- 2) **Bessent affirms possibility of lower tariffs on crops not grown in the US amid soaring coffee prices. He also reassured markets that changes in Treasury issuances will be gradual.**
- 3) **China's phantom loans should not be confused with shadow banking as sluggish loan demand may be reflecting relatively elevated interest rates compared to slower nominal GDP growth.**

## MACRO THEME: Absence Not Painless

- This morning, the US government is set for a reopening likely today and this may lead to a lifting of flight restrictions within a week and there is likely to be pent up demand. Meanwhile, as we had flagged the risk of missing data earlier, the White House has said that the **October jobs and CPI reports are unlikely to be released due to the shutdown**. We will be watching for the official BLS response on a refreshed data schedule once the federal government reopens.
- Nonetheless, the **effect of prices are still keenly felt** with Treasury Secretary Bessent reaffirming that there may be **lowering tariffs on crops not grown in the US, including coffee**.
- Given the lack of domestic substitutes in the US, the cost passthrough would likely have been significant. Coffee prices in the CPI basket saw 18.9% YoY increase in September which should be too surprising given that top suppliers such as Brazil faced 50% tariff rate.

## Cautious Policy Makers

- On the markets front, Bessent has sought to reassure markets by signaling that they will **"adjust issuances gradually to avoid market disruptions"**. Notably, he pointed out that the stable coin market as well as the Fed's changes in balance sheet management will mean that there will be more demand for Treasury bills. US government securities may also be set to adjust a boost due to changes in capital requirements for banks.
- Fed officials also continued their usual cautious tone with Susan Collins saying that there should be a **high bar for further easing** while Bostic said that **inflation remains the greater risk**.
- New York Fed John Williams pointed out that it will not be long before they **reach level of ample reserves** and after reaching that level it will begin the **process of gradual purchases of assets** to hold bank reserves at a sustained level.

**Yields (2Y: -2.2p; 10Y: -4.7bp; 30Y: -4.0bp)**

**Equities (Nasdaq: -0.3%; S&P 500: +0.1%; Dow: +0.7%)**

**FX (DXY: +0.1%)**

- USD had a mixed performance. USD/JPY tested 155 which led to Finance Minister Katayama saying that they are seeing one-sided, rapid currency movements. Admittedly, we are still some distance away from the 160 levels where intervention last took place.

## DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(JP) Machine Tool Orders (Oct P)	16.8%	--	11.0%
(KR) Unemployment Rate SA (Oct)	2.6%	2.6%	2.5%
(IN) CPI YoY (Oct)	0.2%	0.4%	1.5%

Today	Actual	Exp.	Prior
(US) Initial Jobless Claims		225k	--
(JP) PPI YoY (Oct)		2.5%	2.7%
(EZ) Industrial Production SA MoM (Sep)		0.7%	-1.2%
(US) CPI/Core YoY (Oct)		3.0%/3.0%	3.0%/3.0%
(AU) Employment Change (Oct)		20k	14.9k

- EUR is hovering just below 1.16 while the AUD hovers around mid-65 cents. USD/SGD remains buoyed

- Amid the **slide in oil prices** to below US\$63/barrel as OPEC changed their view of **global oil market situation from deficit to surplus**, EM-Asia FX may see some marginal relief especially for oil importers such as the PHP.

## China: Phantom Loans

- A recent article on phantom loans issued by Chinese banks has attracted significant attention.
- This phenomenon does indicate notably weaker credit demand and potentially slower growth than official data suggests. However, it is important **not to confuse it with shadow banking or hidden local government debt**—issues that have historically posed major risks to China's financial stability.
- There is, in fact, another dimension to these phantom loans.
- Bank headquarters typically allocate loan quotas to branches based on their performance in the previous year. To avoid a forced cut in business scale next year, branches have an incentive to inflate loan figures ahead of periodic assessments. This aligns with a quote from the article: "While targets vary from bank to bank, they have been told to lend at least as much as last year."
- Moreover, the perceived weakness in loan demand this year has been somewhat overstated. Since late last year, local governments have issued RMB 5.6 trillion in bonds to repay hidden debt—some of which involves bank loans to local state-owned enterprises. This helps explain the growing divergence between loan growth and aggregate financing year-to-date.
- That said, **sluggish loan demand also reflects China's relatively high interest rates**. Although the weighted average rate for general loans has fallen by 2.5ppt from its 2018 peak, nominal GDP growth has slowed by 6.6ppt over the same period.

## India: Alleviating Stresses?

- India **CPI came in lower than expected** amid better than expected crop yields and the effects of lower GST. With inflation significantly below the RBI's target rate, there remains **ample scope to ease monetary policy settings**.
- Nonetheless, timing the next easing move is a **delicate balancing act** as the government balances the **domestic consumption boost** from the GST cut while acknowledging the **external demand headwinds** face by exporters from Trump's 50% tariff rate.
- For now, the authorities have introduced collateral free loans to strengthen the liquidity position of exporters. RBI has also intervened to stabilised the INR in recent weeks. Even as fiscal policy appears to be boosting growth, the **cost of high debt issuances and widening spread** remains a cost which requires careful management.
- On balance, amid the **lack of a trade deal to lower the punitive tariff rates**, various mechanisms to provide relief implies that monetary policy may be in line to provide some support in due course.

## FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	154.79	154.72	+0.41%	152.00 - 155.20
EURUSD	1.1593	1.1592	+0.09%	1.1480 - 1.1620
GBPUSD	1.3133	1.3128	▼0.13%	1.3000 - 1.3300
AUDUSD	0.6541	0.6536	+0.21%	0.6450 - 0.6590
DXY	99.5	--	+0.05%	98.5 - 100.5
USDCNY	7.1110	--	▼0.09%	7.0900 - 7.1500
USDCNH	7.1127	7.1115	▼0.13%	7.0900 - 7.1700
USDHKD	7.7717	7.7710	▼0.01%	7.7600 - 7.8200
USDSGD	1.3018	1.3019	+0.05%	1.2950 - 1.3100
USDKRW	1471	1469	+0.00%	1450 - 1475
USDTWD	31.06	--	+0.05%	30.60 - 31.30
USDINR	88.64	--	+0.08%	87.50 - 89.50
USDIDR	16703	--	+0.08%	16500 - 16800
USDMYR	4.134	4.133	▼0.14%	4.120 - 4.200
USDPHP	59.19	--	+0.35%	58.50 - 59.30
USDTHB	32.51	32.36	+0.33%	32.2 - 32.8
USDVND	26350	26350	+0.14%	26250 - 26600

\*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.570	4.070	-2.2	-4.7
JGB (JP)	0.933	1.684	0.4	-0.1
Bunds (GE)	1.995	2.642	-0.4	-1.5
Gilts (UK)	3.723	4.397	0.3	1.1
AGB (AU)	3.638	4.379	-0.1	-1.3
SGS (SG)	1.313	1.846	-1.7	-1.5
CGB (CN)	1.430	1.802	-0.1	-0.4
KGB (KR)	2.766	3.212	0.0	0.0
SDL (IN)	5.777	6.459	-0.1	-1.6

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6850.92	4.31	+0.06%
Nasdaq (US)	23406.46	-61.84	▼0.26%
DJIA (US)	48254.82	326.86	+0.68%
N225 (JP)	51063.31	220.38	+0.43%
STOXX50 (EU)	5787.31	61.61	+1.08%

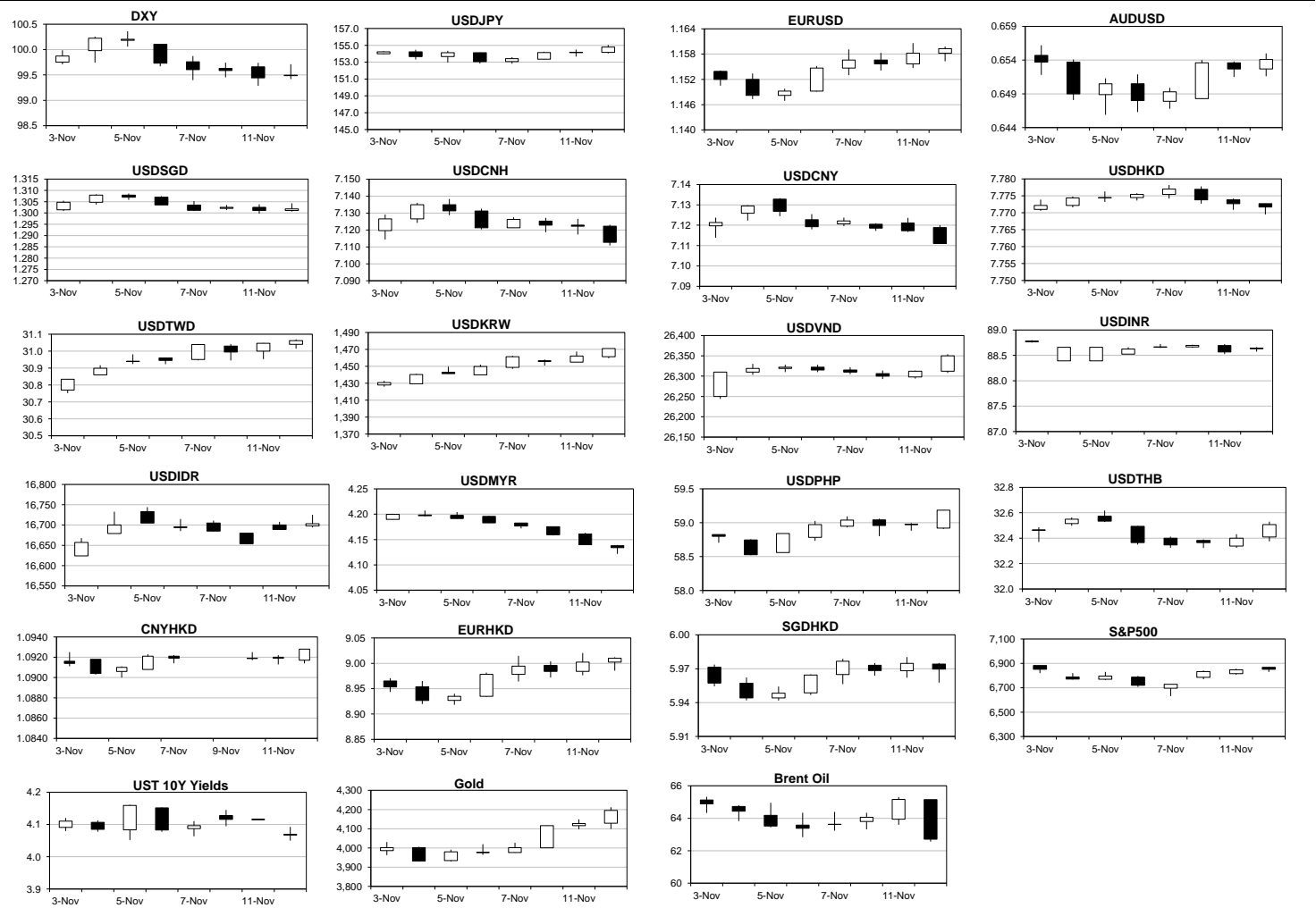
Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	10,929.90	124.18	+1.15%
IRON ORE (CN)	103.73	-0.60	+0.88%
GOLD	4,195.39	68.54	+1.66%
SILVER	53.25	-0.03	▼0.70%
OIL (BRENT)	62.71	-2.45	▼3.76%
OIL (WTI)	58.49	-2.55	▼4.18%
NATURAL GAS	4.53	2.03	+3.96%

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	179.45	179.34	+0.50%
GBP/JPY	203.293	203.109	+0.28%
JPY/SGD (100yen)	0.8409	0.8415	▼0.36%
JPY/HKD (100yen)	5.0199	5.0226	▼0.44%
CNH/JPY	21.753	21.758	+0.47%
CNH/HKD	1.0928	1.0928	+0.07%
EUR/GBP	0.88273	0.88299	+0.22%
AUD/NZD	1.1539	1.1545	▼0.03%
EUR/CNH	8.2457	8.2433	▼0.04%
GBP/CNH	9.3414	9.3356	▼0.26%
CNY/HKD	1.0928	1.0928	+0.07%
EUR/HKD	9.01	9.0078	+0.09%
SGD/HKD	5.9697	5.969	▼0.09%

\*Open is as at 8am HKT/SGT.

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5330.64	5.42	+0.10%
STI (SG)	4568.91	26.71	+0.59%
SHCOMP (CN)	4000.14	-2.62	▼0.07%
SZCOMP (CN)	2507.835	-9.74	▼0.39%
HSI (HK)	26922.73	226.32	+0.85%
SENSEX (IN)	84466.51	595.19	+0.71%
JSE (ID)	8388.566	22.05	+0.26%
KLSE (MY)	1631.61	-3.22	▼0.20%
PSE (PH)	5714.02	84.95	+1.51%
SET (TH)	1284.81	-15.66	▼1.20%
VNINDEX (VN)	1631.86	0.02	+2.40%

CHARTS



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