Mizuho Daily

Dec 19, 2025

Three Take-Aways

1) Questionable lower than expected CPI print saw modest slippage in UST yields and USD.

2) Equities rebound may set stage for self-validating "Santa rally" bets while AI valuation concerns restrain rally inception.

3) BoJ rhetoric fraught with risks as gradual nature sets off JPY sell-off while hawkish notes set up future disappointment.

MACRO THEME: Questionable Cuts

- Lower than expected November US CPI report and better than expected initial jobless claims painted a somewhat sanguine picture that will pave the way for the Fed to make further cuts in 2026.

- The November CPI report delivered a surprise downside, with headline and core inflation at 2.7% and 2.6% YoY, the lowest in four years. However, there are questions raised about the accuracy and assumptions made in the report. (See below)

- The data releases sent the USD into a broad retreat and UST yields tumbling, with the DXY dropping to about 98.2 before rebounding and UST yields slipped 2-3bps.

- Meanwhile, the **ECB held rates** and upgraded growth projections while upwardly revised inflation forecast remain around the 2% mark. In contrast, reflecting sharp inflation-growth trade-offs the **BoE cut policy rates in a 5-4 decision** with Governor Bailey favouring a cut. Nonetheless, he stated calls will get closer and pace of cuts to slow.

US CPI: Flattered or Fettered?

An **unexpectedly distinct pullback in price pressures**, *with November's core CPI cooling to 2.6% YoY,* **raises more questions than it answers**. Most importantly, **whether the shutdown-interrupted, partial collection of price data** in October has **merely flattered underlying dis-inflation *or* fettered** an accurate **gauge of inflation risks**.

The **former** (flattered disinflation) will prove **far less problematic** as it is ultimately not at odds with "risks management" (insurance) cuts by the Fed, **underpinning optimism in bond and equity markets**. But the **latter** (fettered inflation read), whereby inflation risks are misleadingly masked - with data gaps concealing inflation - could potentially turn out to **be pipeline drag bonds and equities**. Worse, a source of policy dilemma.

Apart from the partial data, the **sudden cooling in what is typically slower moving trends associated with housing** (rental and imputed rentals) inflation **sits uncomfortably for inflation watchers**.

Nonetheless, the **bigger picture of an underlying dis-inflation trend**, especially outside of goods affected by tariffs, is **not disputed** (even if not resoundingly reinforced).

And so, all said, the **jury remains out**. The *Fed* as such, is likely to be largely unaffected, and *mostly comfortable with the recent cuts.*

And for markets, **follow-through optimism from this inflation print ought to be justifiably measured**.

Is a "Santa Rally" Still on the Menu?

To be sure, **Wall St has had a fairly spectacular year*** *despite prominent geoeconomic risks* – driven partly by **perverse tariff relief** alongside the **AI boom**, with some **"rotation" spillover** after.

But US equities are down for December*, even after the overnight CPI rally (S&P500: +0.8%; Nasdaq: +1.4%), as ***caution over valuations*** and ***lingering policy/geo-political unknowns*** appear to have crept in. The **proverbial elephant**, *or indeed the festive reindeer,* **in the room** is **whether equity bulls have gas left in the tank** of **to shrug off doubts and pull off a "Santa rally"**.

For the purposes of clarity, the so-called **Santa rally** is gauged over the *last 5 days of December and the first 2 days of January*. So, the fact is, the **jolly man in the red suit has not sung yet** – this happens over the next couple of weeks, give or take on either side.

(Flush) Liquidity, the *anticipation of Fed Chair* nomination and *self-validating bets on a "Santa rally"* (from a softer starting point) suggest a **Santa rally is still on the menu**.

Crypto jitters exacerbating *AI valuation concerns* and *geo-politics heating up* (alongside oil) on Venezuela meanwhile **root for the Grinch**. All considered, **rallies**, *regardless of being underwritten by "Santa",* may **prove cautious at the inception** and **opportunistic in execution**.

* S&P 500 up >15% and Nasdaq surging >19% YTD.
** The Dow is admittedly up ~0.5% for December, but S&P500 and Nasdaq are down 1.1% and 1.5% respectively.

The BoJ's "Heads, You Win, Tails I Lose" Risk

Earlier this month, we **flagged the risk** that the **BoJ could be painted into a corner** where it squanders a hike. That has not changed. If anything, this risk is **now amplified**. This was in reference to the fact that the BoJ faces a *"damned if I do, damned if I don't" situation.* That is, predominantly **baked-in hike does little to prop up the JPY *yet extracts an economic cost* amid already fragile household confidence**.

But failure to hike inadvertently **triggers a further bout of "Sell Japan"** that not only *pressures JPY* but also *triggers a long-end JGB sell-off* (yield surge). Fact is, a 25bp hike by the BoJ is now the baseline – *OIS markets suggesting it is 99% priced in!* Hence, **accompanying BoJ rhetoric** is therefore **where the "action" arguably resides**. And this is ***even more fraught***. With a **"heads you win, tails I lose" outcome for the BoJ**.

i. Either market hawks are disappointed by a far more **gradualist and contingent BoJ tightening guidance** – *therefore selling off JPY and bear steepening.*

ii. Or unrealistically hawkish guidance sets itself up for future disappointment as economic soft spots come homes to roost – *merely deferring JPY sell-off with interim bear flattening.*

In any case, a **dovish Fed inflection surprise down the pike**, may be the **"Fed solution" for the current "BoJ problem"**.

Yields (2Y: -2.3bp; 10Y: -3.1bp; 30Y: -2.3bp)

Equities (Nasdaq: +1.4%; S&P 500: +0.8%; Dow: +0.1%)

FX (DXY: +0.1%)

DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(TW) CBC Benchmark Interest Rate	2.00%	2.00%	2.00%
(US) Initial Jobless Claims	224k	225k	237k
(US) CPI/Core YoY (Nov)	2.7%/2.6%	3.1%/3.0%	--
(EZ) ECB Deposit Facility Rate	2.00%	2.00%	2.00%

Today	Actual	Exp.	Prior
(US) U. of Mich. Sentiment		53.5	53.3
(US) U. of Mich. 1 Yr/5-10Yr Inflation		4.0%/3.2%	4.1%/3.2%
(JP) Natl CPI/ Ex Fresh Food, Energy YoY		2.9%/3.0%	3.0%/3.1%
(JP) BOJ Target Rate		0.75%	0.50%
(MY) Exports/Imports YoY		11.6%/11.4%	15.7%/11.2%
(PH) BoP Overall		--	$706m

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast		
USDJPY	155.55	155.60	▼0.09%	154.00	-	158.00
EURUSD	1.1722	1.1725	▼0.16%	1.1600	-	1.1850
GBPUSD	1.3381	1.3385	+0.04%	1.3150	-	1.3500
AUDUSD	0.6613	0.6614	+0.12%	0.6550	-	0.6700
DXY	98.4	--	+0.06%	98.0	-	99.0
USDCNY	7.0413	--	▼0.04%	7.0000	-	7.1500
USDCNH	7.0327	7.0334	▼0.11%	7.0000	-	7.1700
USDHKD	7.7815	7.7809	+0.01%	7.7500	-	7.8200
USDSGD	1.2898	1.2901	▼0.10%	1.2850	-	1.3000
USDKRW	1477	1474	+0.00%	1452	-	1485
USDTWD	31.53	--	▼0.03%	31.00		31.70
USDINR	90.25	--	▼0.14%	89.50	-	91.00
USDIDR	16716	--	+0.17%	16500	-	16850
USDMYR	4.086	4.087	▼0.05%	4.050	-	4.120
USDPHP	58.56	--	▼0.30%	58.30	-	59.60
USDTHB	31.47	31.44	▼0.10%	31.3	-	32.0
USDVND	26326	26326	▼0.03%	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)	3.461	4.123	-2.3	-3.1
JGB (JP)	1.063	1.965	0.0	-0.2
Bunds (GE)	2.135	2.849	0.0	-1.4
Gilts (UK)	3.740	4.480	3.9	0.6
AGB (AU)	4.009	4.742	-3.3	-0.5
SGS (SG)	1.466	2.203	-0.3	0.2
CGB (CN)	1.385	1.833	-0.6	0.1
KGB (KR)	2.842	3.326	0.0	0.0
SDL (IN)	5.811	6.574	-0.2	-2.5

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	182.33	182.44	▼0.26%
GBP/JPY	208.152	208.256	▼0.05%
JPY/SGD (100yen)	0.8296	0.8291	+0.07%
JPY/HKD (100yen)	5.0025	5.0007	+0.11%
CNH/JPY	22.103	22.097	+0.03%
CNH/HKD	1.105	1.105	+0.05%
EUR/GBP	0.87608	0.87601	▼0.19%
AUD/NZD	1.1452	1.1453	+0.12%
EUR/CNH	8.2439	8.2467	▼0.26%
GBP/CNH	9.412	9.4139	▼0.04%
CNY/HKD	1.105	1.105	+0.05%
EUR/HKD	9.1223	9.1231	▼0.14%
SGD/HKD	6.0331	6.0312	+0.10%

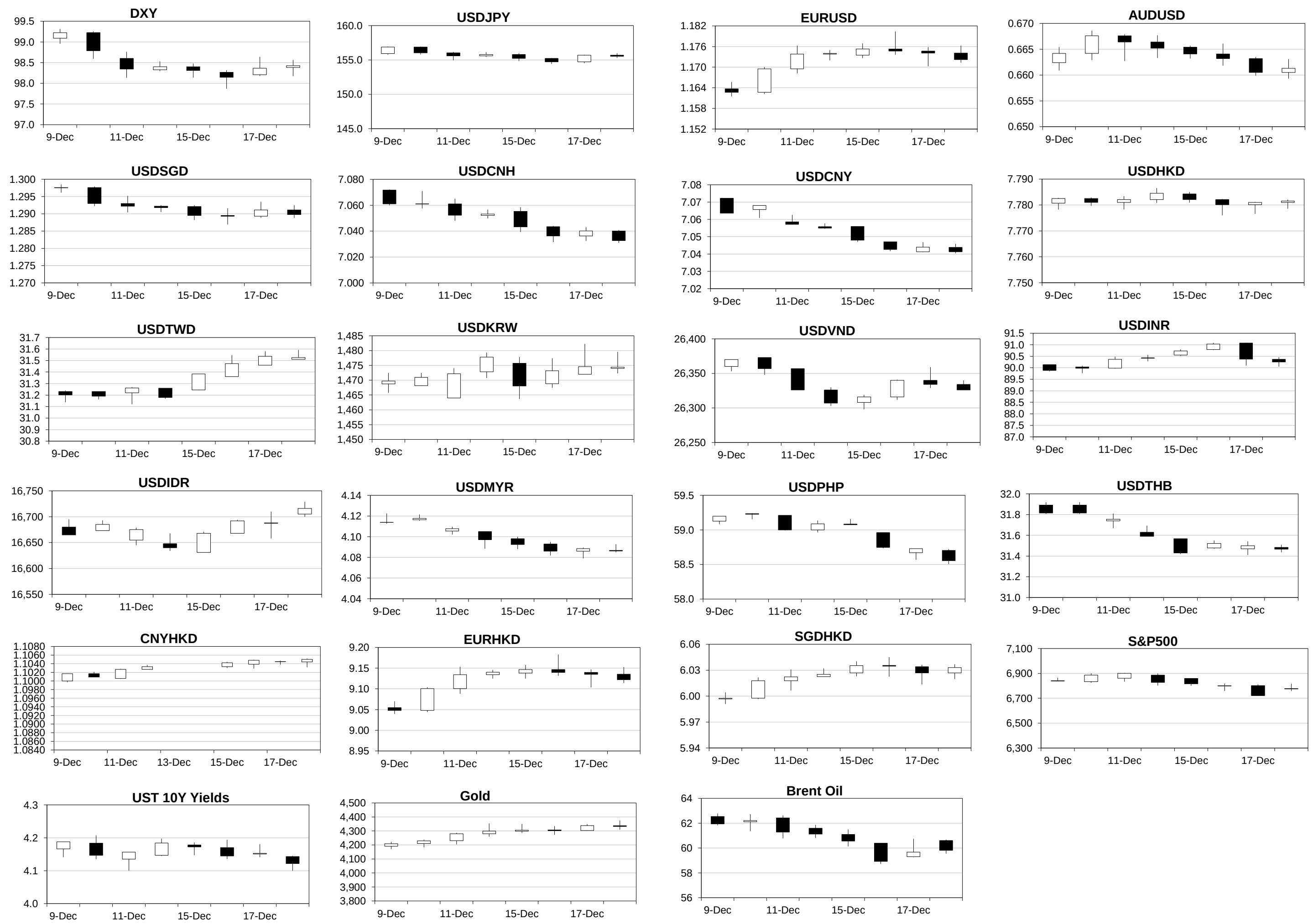
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6774.76	53.33	+0.79%
Nasdaq (US)	23006.36	313.04	+1.38%
DJIA (US)	47951.85	65.88	+0.14%
N225 (JP)	49001.5	-510.78	▼1.03%
STOXX50 (EU)	5741.71	60.04	+1.06%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	11,764.11	36.91	+0.31%
IRON ORE (CN)	107.26	1.51	+0.48%
GOLD	4,332.62	-5.71	▼0.13%
SILVER	65.47	-0.12	▼2.88%
OIL (BRENT)	59.82	0.14	+0.23%
OIL (WTI)	56.15	0.21	+0.38%
NATURAL GAS	3.91	-0.79	▼1.20%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5301.39	34.49	+0.65%
STI (SG)	4570.61	-4.87	▼0.11%
SHCOMP (CN)	3876.371	6.09	+0.16%
SZCOMP (CN)	2440.86	-17.29	▼0.70%
HSI (HK)	25498.13	29.35	+0.12%
SENSEX (IN)	84481.81	-77.84	▼0.09%
JSE (ID)	8618.195	-59.15	▼0.68%
KLSE (MY)	1646.9	5.46	+0.33%
PSE (PH)	6031.48	-47.54	▼0.78%
SET (TH)	1250.07	-6.78	▼0.54%
VNINDEX (VN)	1676.98	0.00	+0.20%

CHARTS



RESEARCH TEAM
Vishnu Varathan | Serena Zhou | Tan Boon Heng | Johnny Wong