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MIZUHO

Three Take-Aways

1) Despite a solid, arguably "Goldilocks" ISM services, US equities slipped. But this was led by Housing and Defense sell-off on Trump policies.

2) Oil tanker seizures align with tighter US grip on Venezuelan oil assets, and wider energy dominance play to complement military

3) US is supported under these auspices. That said, AUD bulls are merely tempered, not overturned, after softer-than-expected CPI.

MACRO THEME: Dissonance

Dissonance – The Positive ISM (Dis-)Service?

- There is obvious, or at least initial, **cognitive dissonance** involved in **squaring 14-month high ISM services** (54.4 vs. 52.2 consensus) with the **slide on Wall St** (S&P500: -0.4%, Dow: -0.9%)

- *Especially considering the ISM Prices paid decelerated* (to 64.3 vs. 65.4 in Nov and 64.9 expectations), which suggests **"Goldilocks" ISM**. That's to say, a **pick-up in demand *without attendant inflationary risks***. In fact, with more subdued price pressures.

- So, the *instinct to ascribe the negative risk response to diminished Fed rate cuts bets* (based on stronger ISM) *ought to be checked.*

- But closer inspection reveals that brighter **ISM Services** was **not culpable for the dis-service to risk appetite**.

- Instead, it was ***Trump's Housing*** (investment) and ***Defense*** (industry) ***initiatives*** that have ***rattled investors***.

Dissonance – Housing Affordability vs. Investability

- On housing, the chill for markets came from Trump saying that he will **ban "large institutional investors" from buying single-family homes**.

- While this was short on details, it **shook down the likes of dominant players like Blackstone** and more broadly weighed on home-builders.

- Ahead of the Mid-Terms, **addressing home affordability**, a key hot button issue, is **politically expedient** and arguably **socio-economically optimal**.

- But **markets/investors are demonstrably misaligned** as this **involves reallocation from institutional investors**, who have long profited from controlling key housing markets.

Dissonance – Defending Profits vs. (Military) Hegemony

- The **other hit to** markets came from **defense stocks** as Trump has threatened to *ban dividend, share buyback* (and even *cap executive pay*) of US defense contractors.

- The intent is *to help ensure sufficient reinvestments into faster production of defense equipment* as the Trump targets a 50% ramp-up in 2027 Defense spending to $1.5trln.

- **Monetizable profit motives** (of Defense contracting firms) are **obviously *in conflict with*** the **desire to defend US' unmatched military hegemony**. The *dissonance* between *defending profits and US's military hegemony* is undeniably binding.

Oil – Tighter US Grip

- Whereas **US intent to foreseeably control Venezuela's oil assets** – with sales proceeds directly going into US Treasury accounts – are **in line with the energy dominance** *required to back military rebuilding.*

- This too has come at a slight expense of the private sector as US Energy Secretary has said that the initial Venezuelan oil sales will not be used to pay US Oil Major (as yet).

- The bigger picture though is that the ***US secure lower cost energy dominance*** for itself.

- And as we have pointed out before, this comes at a wider geo-political cost (to adversaries/opponents) and arguably the largest economic cost to China.

USD Traction

- While a **firmer Greenback** may be attributed to "risk off" in equities, it ***partly reflects the energy dominance dynamics*** as well.

- This plays well into; (i) "funded" forays into Venezuelan oil assets boding well from cash-flow view-point; (ii) marginal petro-dollar dynamics; (iii) more attractive real returns (as energy inflation falls).

AUD Bulls Tempered, Not Overturned

- **Post-CPI**, which surprised softer, **AUD slipped from high- to low-0.67**. But the **welcome softening in Aussie CPI merely tempers** *rather than properly taming,* much less overturning, **AUD bulls**.

- First, there is **a certain element of flattered disinflation**, ***particularly in terms of enduring dis-inflation,*** given base effects from electricity tariffs.

- The broader point being, **inflation** has probably **peaked** (at 3.8% in October), ***but the sustainable path to 3% will be bump***y and long(er than expected). And so, **while the RBA may be more patient with hikes but** is **unlikely to let its hawkish guard down prematurely**.

- Hence, *backstopping AUD bulls. Especially* ***as Fed incoming cuts further enhance real spread appeal*** *(amid peaking Aussie CPI and softer Fed rates).*

- Second, **terms of trade boost for AUD** underscore by **rallying copper prices** burnished by *continuing AI-related infrastructure investment* and the **broader metals boost**.

- Third, **allure of AUD as reserve currency hedge** will likely mount **as rallying precious metals become an increasing expensive** avenue to meet structural demand for **USD debasement hedge**.

Yields ***(2Y: +0.8bp; 10Y: -2.4bp; 30Y: -3.3bp)***

Equities ***(Nasdaq: +0.2%; S&P 500: -0.3%; Dow: -0.9%)***

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

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(AU) CPI/Trimmed Mean YoY (Nov)	3.4%/3.2%	3.6%/3.2%	3.8%/3.3%
(TW) CPI/Core YoY (Dec)	1,31%/1.83%	1.30%/1.71%	1.23%/1.72%
(TH) CPI/Core YoY (Dec)	-0.28%/0.59%	-0.3%/0.7%	-0.49%/0.66%
(EZ) CPI Estimate/Core YoY (Dec P)	2.0%/2.3%	2.0%/2.4%	2.1%/2.4%
(US) JOLTS Job Openings (Nov)	7146k	7648k	7449k
(US) ADP Employment Change (Dec)	41k	50k	-29k
(US) ISM Services Index/Prices Paid (Dec	54.4/64.3	52.2/64.9	52.6/65.4

Today	Actual	Exp.	Prior
(JP) Labor/Real Cash Earnings YoY (Nov)	0.5%/-2.8%	2.3%/-1.2%	2.5%/-0.8%
(US) Initial Jobless Claims		212k	199k
(EZ) Unemployment Rate (Nov)		--	6.4%

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast		
USDJPY	156.76	156.74	+0.07%	155.00	-	158.00
EURUSD	1.1675	1.1677	▼0.12%	1.1600	-	1.1850
GBPUSD	1.3458	1.3459	▼0.32%	1.3200	-	1.3550
AUDUSD	0.6721	0.6722	▼0.25%	0.6650	-	0.6800
DXY	98.7	--	+0.11%	98.0	-	99.1
USDCNY	6.9916	--	+0.11%	6.9500	-	7.1000
USDCNH	6.9935	6.9916	+0.19%	6.9500	-	7.1000
USDHKD	7.7871	7.7868	▼0.02%	7.7400	-	7.8300
USDSGD	1.2823	1.2827	+0.14%	1.2750	-	1.2950
USDKRW	1449	1448	+0.00%	1432	-	1460
USDTWD	31.52	--	▼0.02%	31.30		31.70
USDINR	89.89	--	▼0.32%	89.20	-	91.00
USDIDR	16775	--	+0.15%	16650	-	16900
USDMYR	4.058	4.059	+0.27%	4.030	-	4.090
USDPHP	59.37	--	+0.28%	58.30	-	59.80
USDTHB	31.28	31.34	+0.11%	31.1	-	31.7
USDVND	26274	26275	▼0.01%	26100	-	26600

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.472	4.150	0.8	-2.4
JGB (JP)	1.162	2.116	-1.6	-1.3
Bunds (GE)	2.088	2.849	-1.0	0.8
Gilts (UK)	3.673	4.415	-2.0	-6.4
AGB (AU)	4.078	4.758	-0.6	-3.5
SGS (SG)	1.461	2.214	-4.7	6.6
CGB (CN)	1.424	1.892	3.2	1.6
KGB (KR)	2.828	3.397	0.0	0.0
SDL (IN)	5.803	6.611	1.8	-0.3

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	183.02	183.03	▼0.04%
GBP/JPY	210.971	210.941	▼0.25%
JPY/SGD (100yen)	0.818	0.8183	+0.09%
JPY/HKD (100yen)	4.9672	4.9681	▼0.08%
CNH/JPY	22.414	22.421	▼0.12%
CNH/HKD	1.1139	1.1137	▼0.11%
EUR/GBP	0.86747	0.86763	+0.20%
AUD/NZD	1.1645	1.1644	▼0.03%
EUR/CNH	8.1647	8.1641	+0.07%
GBP/CNH	9.4118	9.4096	▼0.14%
CNY/HKD	1.1139	1.1137	▼0.11%
EUR/HKD	9.0913	9.0926	▼0.14%
SGD/HKD	6.073	6.0706	▼0.16%

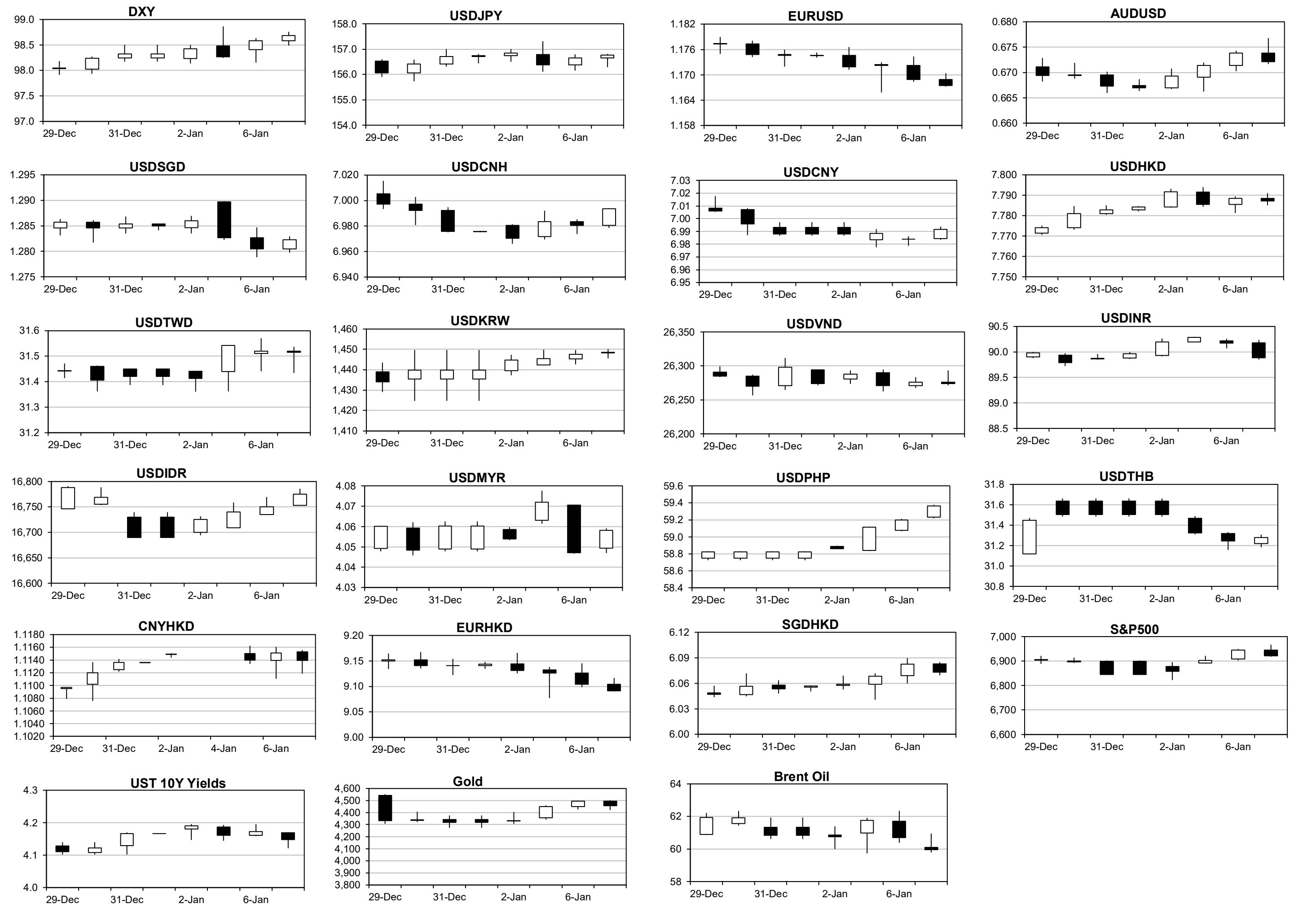
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6920.93	-23.89	▼0.34%
Nasdaq (US)	23584.28	37.11	+0.16%
DJIA (US)	48996.08	-466.00	▼0.94%
N225 (JP)	51961.98	-556.10	▼1.06%
STOXX50 (EU)	5923.57	-8.22	▼0.14%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	12,914.48	-326.50	▼2.47%
IRON ORE (CN)	108.85	1.66	+2.07%
GOLD	4,456.47	-38.36	▼0.85%
SILVER	78.19	0.18	+5.22%
OIL (BRENT)	59.96	-0.74	▼1.22%
OIL (WTI)	55.99	-1.14	▼2.00%
NATURAL GAS	3.53	-3.08	▼3.79%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5417.07	-32.96	▼0.60%
STI (SG)	4747.62	7.65	+0.16%
SHCOMP (CN)	4085.772	2.11	+0.05%
SZCOMP (CN)	2620.524	2.75	+0.11%
HSI (HK)	26458.95	-251.50	▼0.94%
SENSEX (IN)	84961.14	-102.20	▼0.12%
JSE (ID)	8944.813	11.20	+0.13%
KLSE (MY)	1676.83	4.48	+0.27%
PSE (PH)	6292.09	-25.82	▼0.41%
SET (TH)	1280.82	6.07	+0.48%
VNINDEX (VN)	1861.58	0.02	+2.49%

CHARTS



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