

Jan 14, 2026

## Three Take-Aways

- 1) Markets have faded Fed independence worries in broad (ex-Fed Chairs, ex-US Treasury Secretaries and Republican pushback).
- 2) US CPI shows pockets of pick-up as post-shutdown data gaps are being addressed. Dovetails with Fed speak suggesting near-term hold rather than rushed cuts.
- 3) Iranian oil risks keep long-end yields sticky with distinct upside bias. Japan's snap elections add to long-end upside pressures from JGBs (whilst JPY defiantly slumps despite higher yields)

## MACRO THEME: Not Banking on Unfettered Optimism

- Despite Fed independence risks being assuaged (more below), soft earnings from JP Morgan and Trump's attack on credit card rates have dented banking/financial stocks (-1.8%). Overall, it doesn't appear that the conditions warrant banking on unfettered optimism as, geo-political, monetary-fiscal risks and institutional risks loo large.

## Fed Independence Worries - Assuaged, Not Apathetic

- Further to our note\* yesterday on the **latest assault on Fed independence** (using **legal threats issued by the DOJ**), **markets have mostly shrugged it off** with the **dollar rebounding smartly** (DXY from high-98 back a touch above 99).

- But this is **not apathy**, for **sustained pressures to undermine the Fed's independence will elicit "Sell America" reflex** (USD slump and long-end UST yields rising sharply) as is **consistent with loss of institutional integrity**. **Instead**, it was **evidence of concerns materially assuaged**.

- Not just by the **show of force by all living ex-Fed Chairs and many ex-US Treasury Secretaries backing Powell and Fed independence**.

- But notably also from **bipartisan support for Powell**, including **members of Senate Banking committee**.

- **Trump has since reiterated his caustic criticisms of Powell** alleging that the Fed Chair is **"either incompetent or crooked"**. But **markets** now have **justifiable reasons not to be as rattled** by such bluster (fully expected) from this President.

- Especially given greater clarity that the **investigation** launched by the DOJ **will not hamper Powell from his duties** as the sitting Fed Chair. In other words, the **Trump Administration legal apparatus have not prematurely rendered Powell as lame duck or worse, paralyzed the Fed**.

## US CPI – The "Baby Bear"\* Phenomenon

While **USTs** initially started the session firmer, on Fed independence risks assuaged, yields have since **regained traction**, with the **long-end a tad higher**. To be sure, **a suite of factors has conspired** to applying **variable tension on yields across the curve**.

But **"baby bear"** **US CPI report** for December, whereby **an awkward compromise (rather than a "sweet spot")**, that **stops the Fed in its tracks**.

## DATA/EVENTS

Overnight	Actual	Exp.	Prior
(US) New Home Sales (Oct)	737k	715k	738k
(US) Building Permits (Oct F)	1411k	--	1412k
(US) CPI/Core YoY (Dec)	2.7%/2.6%	2.7%/2.7%	2.7%/2.6%
(JP) BoP Current Account Balance (Nov)	¥3674.1b	¥3608.7b	¥2833.5b
(JP) EcoWatchers Current SA (Dec)	48.6	48.7	48.7
(JP) EcoWatchers Outlook SA (Dec)	50.6	50.2	50.3
(AU) Westpac Cons Conf SA MoM (Jan)	-1.7%	--	-9.0%

Today	Actual	Exp.	Prior
(US) Existing Home Sales (Dec)		4.23m	4.13m
(US) Current Account Balance (3Q)		--	-\$251.3b
(US) Retail Sales Adv/Ex Auto and Gas MoM (Nov)		0.4%/0.3%	0.0%/0.5%
(JP) Machine Tool Orders YoY (Dec P)		--	14.8%
(IN) Wholesale Prices YoY (Dec)		0.4%	-0.3%
(KR) Unemployment rate SA (Dec)		2.9%	2.7%
(CH) Exports/Imports YoY (Dec)		3.0%/0.8%	5.9%/1.9%

Specifically, **filling out the data gaps in exceptionally soft post-shutdown CPI** reveals **pockets of noticeable pick-up in inflation, even if the core is not as hot as pessimists had feared**.

The upshot is that **while CPI is not so hot that it wrong-foots the 75bp of cuts from late last year**, it is **not reassuring soft enough to embolden further, imminent cuts**. Notably, the odds of a Jan cut now has fallen from ~11% a week ago to just over 2%.

## Fed Speak Concur

And the **Fed speak has dove-tailed with a "wait and watch"** approach for now. **NY Fed's Williams** said that (Fed policy) **rates are "well positioned"** and **Fed's Musalem** said that he **"see(s) little reason for near-term further easing in policy"**. Furthermore, references **to rates close to "neutral"** underpin dampener on rate cut expectations for January.

## Iran & Oil (Risks)

**Oil's recent surge** (Brent crude up 9-10% from last week) **from Iranian unrest**, warns that **oil price volatility**, likely to underpin **AXJ** differentiation, is a **key watch factor as Iranian risks evolve**.

Further **provocations from Trump instigating Iranian protestors to "keep protesting ... (and) take over ... institutions"** **keeps the Iranian situation and spillover risks fluid**. Especially with **Trump insinuating, albeit not promising, US support/involvement**.

In the event of a flare-up in the situation leads to **Iranian (>3MBpD) oil production being significantly disrupted**, a **10-15% spike in prices** is not an outlandish outcome. And to be clear this is **even without a wider Middle East oil passage disruption** (vitality from a blockade of the Straits of Hormuz).

**Worst-case outcomes** that involve a **blockade of the Straits of Hormuz**, - albeit fleeting given Us incentives to take this down – could (fleetingly) **trigger a 25-50% spike crude prices**, despite pipeline alternatives available to Saudi and UAE. Regardless, the **upswing in oil amid Iranian risks is keeping long-end yields buoyed**, via the tight correlation between spot oil and 5Y5Y inflation swaps.

## The Japan Elections Trade – Two Bears & One Bull

Meanwhile, **anticipation of an upcoming snap elections in Japan** is instigating **two bears (JPY and JGBs)** and a **Nikkei bull**.

**Nikkei is notably buoyant**, building on the 3.1% rally from yesterday with a ~1% leg-up today. The "Japan election" bet is that a consolidated, stronger Takaichi Administration will push through fiscal stimulus/business support. That is obviously welcome by the Nikkei (beneficiaries of largesse/regulatory support) while JGB bears are mauling long-end yields; with **30Y testing 3.5%, 10Y flirting with 2.2%**.

**JPY buckling from 158 to 159** (up from nmid-156 at the start of the year) will be **a bugbear for the BoJ** (and heightens MoF vigilance) **although it boosts Nikkei bulls further**.

**Yields (2Y: +0.0bp; 10Y: +0.3bp; 30Y: +0.9bp)**

**Equities (Nasdaq: -0.1%; S&P 500: -0.2%; Dow: -0.8%)**

**FX (DXY: +0.3%)**

## FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	159.14	159.19	+0.63%	157.00 - 160.00
EURUSD	1.1642	1.1642	▼0.21%	1.1580 - 1.1800
GBPUSD	1.3422	1.3427	▼0.32%	1.3200 - 1.3550
AUDUSD	0.6682	0.6683	▼0.43%	0.6650 - 0.6800
DXY	99.1	--	+0.28%	98.5 - 99.5
USDCNY	6.9777	--	+0.07%	6.9500 - 7.1000
USDCNH	6.9735	6.9736	+0.08%	6.9500 - 7.1000
USDHKD	7.8012	7.8011	+0.06%	7.7400 - 7.8300
USDSGD	1.2887	1.2890	+0.23%	1.2750 - 1.2950
USDKRW	1478	1477	+0.00%	1450 - 1485
USDTWD	31.65	--	+0.04%	31.30 - 31.80
USDINR	90.19	--	+0.02%	89.20 - 91.00
USDIDR	16865	--	+0.19%	16650 - 17000
USDMYR	4.058	4.060	▼0.15%	4.030 - 4.080
USDPHP	59.35	--	+0.14%	58.30 - 59.80
USDTHB	31.47	31.54	+0.75%	31.2 - 31.7
USDVND	26281	26282	+0.03%	26050 - 26600

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

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.535	4.180	0.0	0.3
JGB (JP)	1.156	2.165	1.3	7.6
Bunds (GE)	2.091	2.846	-0.2	0.6
Gilts (UK)	3.651	4.398	0.2	2.5
AGB (AU)	4.035	4.708	0.8	0.5
SGS (SG)	1.416	2.151	-1.1	-1.6
CGB (CN)	1.435	1.849	-0.1	-0.9
KGB (KR)	2.838	3.388	0.0	0.0
SDL (IN)	5.781	6.628	0.0	2.3

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6963.74	-13.53	▼0.19%
Nasdaq (US)	23709.87	-24.03	▼0.10%
DJIA (US)	49191.99	-398.21	▼0.80%
N225 (JP)	53549.16	1609.27	+3.10%
STOXX50 (EU)	6029.83	13.53	+0.22%

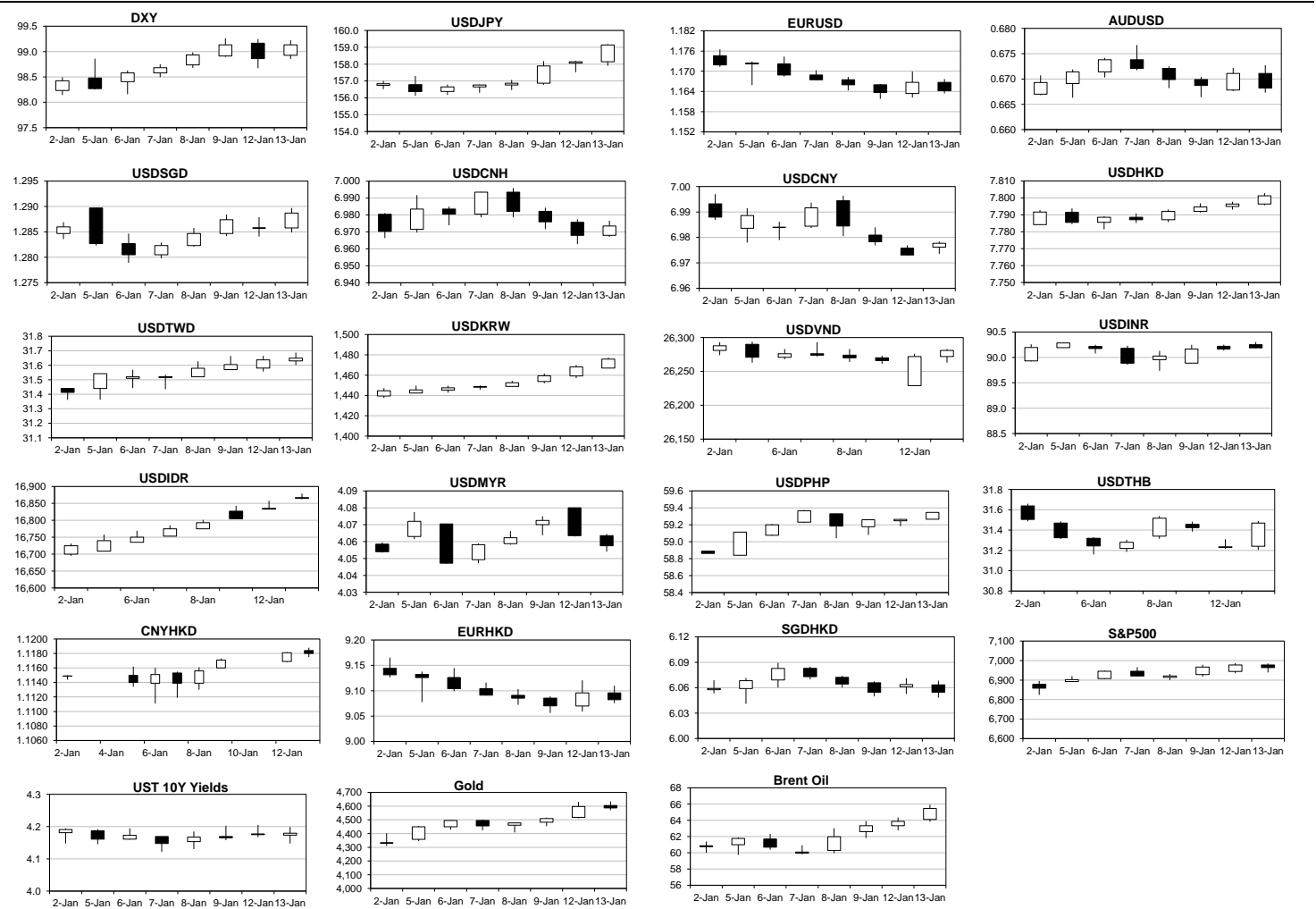
Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	13,254.23	-19.58	▼0.15%
IRON ORE (CN)	108.19	1.55	▼0.64%
GOLD	4,586.52	-10.99	▼0.24%
SILVER	86.95	0.01	+0.29%
OIL (BRENT)	65.47	1.60	+2.51%
OIL (WTI)	61.15	1.65	+2.77%
NATURAL GAS	3.42	1.85	+2.17%

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	185.29	185.33	+0.42%
GBP/JPY	213.597	213.736	+0.31%
JPY/SGD (100yen)	0.8095	0.8097	▼0.43%
JPY/HKD (100yen)	4.901	4.9005	▼0.58%
CNH/JPY	22.792	22.814	+0.51%
CNH/HKD	1.118	1.118	▼0.01%
EUR/GBP	0.86738	0.86709	+0.11%
AUD/NZD	1.1648	1.1647	+0.20%
EUR/CNH	8.1186	8.1187	▼0.14%
GBP/CNH	9.3594	9.3631	▼0.27%
CNY/HKD	1.118	1.118	▼0.01%
EUR/HKD	9.0824	9.082	▼0.15%
SGD/HKD	6.0546	6.0521	▼0.15%

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

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5460.99	-4.33	▼0.08%
STI (SG)	4807.13	40.35	+0.85%
SHCOMP (CN)	4138.758	-26.53	▼0.64%
SZCOMP (CN)	2676.043	-38.48	▼1.42%
HSI (HK)	26848.47	239.99	+0.90%
SENSEX (IN)	83627.69	-250.48	▼0.30%
JSE (ID)	8948.303	63.58	+0.72%
KLSE (MY)	1708.2	12.76	+0.75%
PSE (PH)	6408.76	-11.20	▼0.17%
SET (TH)	1235.3	-6.90	▼0.56%
VNINDEX (VN)	1902.93	0.01	+1.36%

CHARTS



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