Mizuho Daily

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Three Take-Aways

1) Kevin Warsh's nomination as Fed Chair boosted the USD on inclination towards smaller Fed balance sheet and previous image as hawk.

2) EM-Asia FX to start on the back foot with INR facing fiscal woes while the THB wobble on volatile gold prices and election uncertainties.

3) RBA's widely expected rate hike tomorrow faces fat tail risks of a narrow voting outcome which could upset AUD bulls and weigh on front end yields.

MACRO THEME: Unwinding and Twisting

- Last Friday, the metals meltdown was undoubtedly the hot topic with gold prices declining 9% while spot silver lost about a quarter of its value. To be clear, this decline was not just on the back of a superficial "hawkish" take on Kevin Warsh who was nominated for the next Fed Chair. Specifically, front end 2Y UST yields drop 3.7bps while 10Y yields rose just 1 bp higher as the curve steepened, insufficient to drive the sharp drop in metal prices.

- It was perhaps his previous allusions to smaller balance sheets that **reversed the USD debasement trades** which also may be colliding with month end effects.

Warsh-ing Out Debasement Risks?

- After President Trump revealed **Kevin Warsh** to be the **Fed Chair pick**, the **USD rallied** *alongside front-end USTs* (yields lower). To be clear, Warsh is in favour of more rate cuts and sooner. Notably, he has **criticized the Fed for being "backward-looking"** and too slow on cuts. In which case, one might expect the USD to weaken, *not strengthen.* Nonetheless, **Warsh's positive impact on the arguably USD derives from** three key features.

- First, and most importantly, **Warsh is a firm believer of a smaller Fed balance sheet**. In other words, ***the anti-thesis of QE***.

- This by extension **checks the risks of USD debasement**, which **undermine the allure of fiat debasement hedges**; explaining *Gold's 9-10% plunge* (and silver's 25-30% collapse).

Second, Warsh's **pursuit of lower rates does not compromise the 2% inflation anchor**, being **premised on** *productivity gains* and *overstated artificial inflation constructs.*

Finally, Warsh was an **inflation hawk** in his past Fed tenure, who ***values Fed independence***. Hence, *presumed credibility gains offer Warsh more policy flexibility* without compromising USD (and USTs).

***Yields** (2Y: -3.7bp; 10Y: +0.4bp; 30Y: +2.0bp)*

***Equities** (Nasdaq: -0.9%; S&P 500: -0.4%; Dow: -0.4%)*

***FX** (DXY: +0.7%)*

- EUR dropped to mid-1.18 while the AUD sank below mid-69 cents. In Asia, the USD/SGD is now back above 1.27. USD/JPY was sent soaring above 155 alongside PM Takaichi's comments that the weak JPY is a huge opportunity for export industries.

- The PM has clarified her comments that she only intended to argue for a resilient economy to withstand FX fluctuations.

EM Asia's Woes

- **India's weekend budget announcement of the need for higher borrowing** will be another setback for the INR and the very modest decline in fiscal deficit from 4.4% to 4.3% of GDP may be sufficient to allay fears of an inability to restrain fiscal spending in the medium term.

- Meanwhile, the **THB's underperformance may persist should gold prices be unable to shake off the weakness. THB will also be weighed down by political uncertainty** heading into election this Sunday.

- The opposition People's Party continue to lead opinion polls but this could potentially imply coalition formation among other parties and legal challenges which also happened in 2023 and was an overhang on the THB.

- In the Philippines, BSP Governor Remolona has **signalled readiness to adjust policy rate settings**, saying that "we thought that 3.8% for 4Q was bad but the actual data (3.0%) came out worse".

RBA: Contemplating Risks of a Tight Call

- Odds of a RBA rate hike at their upcoming meeting on 3 Feb has now risen to 71% amid a confluence of better than expected employment print and headline CPI exceeding expectations.

- Admittedly, given that there will be refreshed economic projections with the Statement on Monetary Policy, it is also an opportune time for a rate change on the "guiding inflation back to target" rationale.

- Nonetheless, with the trimmed mean at 3.3%YoY for December and 3.4% YoY for Q4, it may be premature to conclude on a resurgence in inflation. That said, with services and non-tradeables inflation providing to be rather elevated at 4.1% YoY and 4.6% YoY respectively, the delayed return of inflation back to RBA target range will prove to be a bugbear at this meeting.

- Given the also volatile nature of the unemployment rate and still below trend employment in 2025 even after accounting for the stellar December gains, employment worries are not entirely off the RBA's back.

- On balance, while **an insurance hike may be the most optimal outcome** within traditional monetary policy calculus, we **expect significant opposition** within the monetary policy board. As we now envisage a 5-4 narrow outcome to hike, this outcome could be a temporary setback for the AUD especially if markets being already pricing in 2 hikes for this year.

- Nonetheless, should a hike materialise, RBA Governor Bullock will be positioned to communicate a prolong hold and vigilance to upside inflation risks which aid AUD consolidation.

- Despite the rather widely expected rate hike, there exists rather fat tail risks of a 5-4 outcome to stand pat with non-executive members favouring a wait and see mode which may see some knee jerk weakness for the AUD.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(EZ) Unemployment Rate (Dec)	6.3%	--	6.3%
(EZ) GDP SA YoY/QoQ (4Q A)	1.3%/0.3%	1.3%/0.3%	1.4%/0.3%
(JP) Industrial Production YoY (Dec P)	2.6%	2.3%	-2.2%
(US) MNI Chicago PMI (Jan)	54.0	43.7	42.7
(JP) Jobless Rate/Job-To-Applicant Ratio (Dec	2.6%/1.2	2.6%/1.2	2.6%/1.2
(JP) Retail Sales YoY (Dec)	-0.9%	0.7%	1.1%
(AU) PPI YoY	3.5%	--	3.5%
(KR) Industrial Production YoY	-0.3%	-2.0%	-1.4%
(TH) BoP Current Account Balance	$3100m	--	-$585m
(TH)Exports/Imports YoY	18.1%/18.0%	--	5.5%/17.3%
(TW) GDP YoY	12.7%	8.7%	8.2%
Today	**Actual**	**Exp.**	**Prior**
(US) ISM Manufacturing (Jan)		48.5	47.9
(ID) CPI YoY (Jan)		3.8%	2.9%
(ID) Trade Balance (Dec)		$2530m	$2662m
(CH) RatingDog China PMI Mfg (Jan)		50.0	50.1

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast		
USDJPY	154.78	155.22	+1.09%	152.00	-	156.00
EURUSD	1.1851	1.1848	▼1.00%	1.1800	-	1.2100
GBPUSD	1.3686	1.3677	▼0.89%	1.3500	-	1.3900
AUDUSD	0.6964	0.6945	▼1.21%	0.6800	-	0.7000
DXY	97.0	--	+0.74%	96.0	-	98.0
USDCNY	6.9569	--	+0.06%	6.9300	-	7.0500
USDCNH	6.9584	6.9588	+0.20%	6.9300	-	7.0500
USDHKD	7.8138	7.8102	+0.11%	7.7400	-	7.8500
USDSGD	1.2703	1.2724	+0.45%	1.2620	-	1.2800
USDKRW	1451	1445	+0.00%	1425	-	1450
USDTWD	31.47	--	+0.50%	31.00		31.70
USDINR	91.99	--	+0.04%	90.50	-	92.70
USDIDR	16785	--	+0.21%	16600	-	17000
USDMYR	3.945	3.945	+0.41%	3.900		4.000
USDPHP	58.88	--	▼0.12%	58.30	-	59.80
USDTHB	31.48	31.58	+1.01%	31.0	-	32.0
USDVND	25949	25943	▼0.27%	25800	-	26300

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.524	4.237	-3.7	0.4
JGB (JP)	1.225	2.244	-2.7	-0.8
Bunds (GE)	2.085	2.842	0.7	0.3
Gilts (UK)	3.710	4.521	0.3	1.1
AGB (AU)	4.205	4.806	0.1	-3.0
SGS (SG)	1.380	2.059	0.5	-0.3
CGB (CN)	1.373	1.807	-1.3	-0.5
KGB (KR)	2.943	3.610	3.2	5.4
SDL (IN)	5.820	6.696	-2.5	-0.2

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	183.43	183.9	+0.08%
GBP/JPY	211.822	212.28	+0.18%
JPY/SGD (100yen)	0.8209	0.8198	▼0.62%
JPY/HKD (100yen)	5.0483	5.0319	▼0.99%
CNH/JPY	22.196	22.311	+0.84%
CNH/HKD	1.1229	1.1227	+0.01%
EUR/GBP	0.86621	0.8663	▼0.06%
AUD/NZD	1.1563	1.155	▼0.31%
EUR/CNH	8.2509	8.2448	▼0.76%
GBP/CNH	9.5233	9.5172	▼0.71%
CNY/HKD	1.1229	1.1227	+0.01%
EUR/HKD	9.2593	9.2535	▼0.91%
SGD/HKD	6.1512	6.1382	▼0.34%

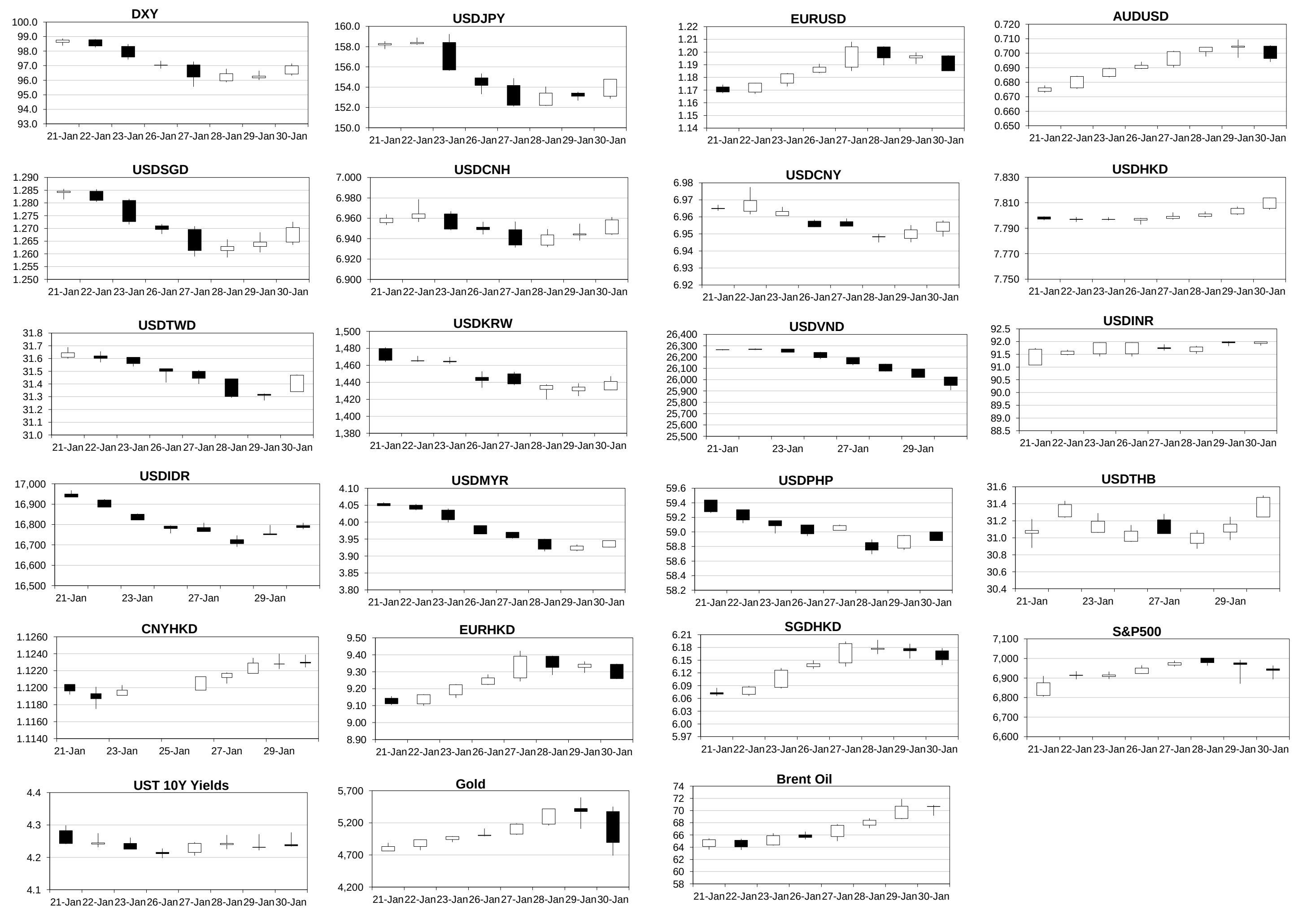
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6939.03	-29.98	▼0.43%
Nasdaq (US)	23461.82	-223.30	▼0.94%
DJIA (US)	48892.47	-179.09	▼0.36%
N225 (JP)	53322.85	-52.75	▼0.10%
STOXX50 (EU)	5947.81	55.86	+0.95%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5511.52	24.20	+0.44%
STI (SG)	4905.13	-24.90	▼0.51%
SHCOMP (CN)	4117.948	-40.04	▼0.96%
SZCOMP (CN)	2683.731	-21.07	▼0.78%
HSI (HK)	27387.11	-580.98	▼2.08%
SENSEX (IN)	82269.78	-296.59	▼0.36%
JSE (ID)	8329.606	97.40	+1.18%
KLSE (MY)	1740.88	9.99	+0.58%
PSE (PH)	6328.97	105.61	+1.70%
SET (TH)	1325.62	-5.45	▼0.41%
VNINDEX (VN)	1829.04	0.01	+0.77%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	13,067.62	-456.62	▼3.38%
IRON ORE (CN)	105.62	-0.25	▼0.08%
GOLD	4,894.23	-481.01	▼8.95%
SILVER	85.20	0.44	+11.13%
OIL (BRENT)	70.69	-0.02	▼0.03%
OIL (WTI)	65.21	-0.21	▼0.32%
NATURAL GAS	4.35	-30.50	▼26.36%

CHARTS



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

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