

Feb 04, 2026

## Three Take-Aways

- 1) **Divergence among Fed officials over future rate cuts underscored uncertainty around the US monetary policy path.**
- 2) **BoJ hike expectations have shifted forward, with April rate hike odds rising.**
- 3) **Hong Kong retail sales ended 2025 with clear 2H25 momentum, setting a firmer base for 2026 upside.**

## MACRO THEME: Rate Cut Uncertainty

- Richmond Fed President **Tom Barkin** framed last year's rate cuts as "insurance" for the labour market, stressing that the focus is now on completing the **"last mile" back to the 2% inflation target**.
- He noted fading policy uncertainty, steady demand, and easing price pass-through as consumers resist higher costs, though he cautioned that growth remains narrowly driven by AI-related investment and high-income spending, leaving the economy vulnerable to a pullback.
- In contrast, **Fed Governor Stephen Miran reiterated his dovish tone**, arguing that restrictive rates are no longer justified by underlying inflation dynamics and calling for **more than 100bp of cuts in 2026**, highlighting the divergence within the FOMC.
- On the political front, the **US House passed a funding package to end a partial government shutdown**, reducing near-term fiscal uncertainty, though risks linger around Department of Homeland Security funding later this month.
- Geopolitically, tensions in the Middle East resurfaced after a **US carrier shot down an Iranian drone**, supporting a modest rebound in oil prices. **Commodities broadly bounced**, with gold and silver up 6.1% and 7.4%, while copper gained on optimism around China's plans to expand strategic reserves.

**Yields (2Y: -0.2bp; 10Y: -1.3bp; 30Y: -1.8bp)**

**Equities (Nasdaq: -1.4%; S&P 500: -0.8%; Dow: -0.3%)**

**FX (DXY: -0.2%)**

## China: Reshaping Incentives

- The Ministry of Finance and State Taxation Administration **expanded the VAT scope for telecom services**, reclassifying core offerings and **raising the VAT rate to 9% from 6%**.
- The unexpected move weighed sharply on sector sentiment, triggering declines in share prices of **China Mobile, China Unicom and China Telecom**, all of which flagged **near-term revenue and margin pressure**.
- Rather than cushioning the impact, policymakers appear intent on **forcing efficiency gains**, encouraging operators to absorb costs and accelerate their pivot toward **cloud, AI and higher-value digital services**.
- Overall, these measures suggest China inclines to deploy **selective tax tools to reshape incentives** and steer the economy toward higher-quality growth.

## DATA/EVENTS

| Overnight                             | Actual    | Exp.      | Prior     |
|---------------------------------------|-----------|-----------|-----------|
| (KR) CPI/Ex Food and Energy YoY (Jan) | 2.0%/2.0% | 2.0%/1.9% | 2.3%/2.0% |
| (AU) RBA Cash Rate Target             | 3.85%     | 3.85%     | 3.60%     |

| Today                                   | Actual | Exp.      | Prior     |
|-----------------------------------------|--------|-----------|-----------|
| (US) ADP Employment Change (Jan)        |        | 45k       | 41k       |
| (US) ISM Services Prices Paid (Jan)     |        | 53.5/--   | 53.8/65.1 |
| (EZ) CPI / Core YoY (Jan P)             |        | 1.7%/2.3% | 1.9%/2.3% |
| (EZ) PPI YoY (Dec)                      |        | -2.2%     | -1.7%     |
| (CH) RatingDog China PMI Services (Jan) |        | 52.0      | 52.0      |

## Japan: April Hike Risk Rising

- Market expectations has decisively shifted toward an earlier BoJ rate hike, with **OIS now pricing a 75% odds to an April move**, a pull-forward from the prior baseline expectation of June.
- The repricing follows a notably **more hawkish Summary of Opinions**, which emphasized the urgency of addressing rising prices and the risks associated with prolonged policy accommodation.
- The weak yen has clearly become a central policy concern. **Board members repeatedly highlighted persistent pass-through from currency depreciation to prices**, suggesting that exchange-rate dynamics are now a first-order consideration in the reaction function. **This increases the cost of policy delay**.
- Importantly, **concerns about financial conditions constraining activity remain limited**. The Summary noted that overall funding conditions are still accommodative, and that firms' **interest burdens have largely been absorbed by solid business conditions**, lowering the hurdle for another hike.
- Taken together, **the bias has shifted from "gradualism" toward "timeliness"**.
- While June remains a fallback, the **risks now tilt toward April delivery**, especially if the yen stays weak and spring wage negotiations confirm inflation persistence.

## Hong Kong: Retail Sales Stayed Strong

- **Hong Kong retail sales ended 2025 on a firmer note**, with December sales value rising **6.6% YoY to HKD 35.0bn**, broadly in line with November's performance, while **sales volume increased 5.1% YoY**.
  - **Although both readings fell short of market expectations**, the data still point to a meaningful improvement in underlying demand, suggesting the **recovery seen in 2H25 remains intact**.
  - Performance across categories remained uneven, with **spending concentrated in discretionary and tourism-related segments**. Jewellery, watches and valuable gifts (+14.3% YoY) and electrical goods (+58.9% YoY) led gains, while wearing apparel and department stores stayed under pressure.
  - **Online retail continued to outperform**, surging 30.9% YoY in December and accounting for 8.8% of total sales, underscoring the **ongoing structural shift toward digital consumption**.
  - For 2025 as a whole, retail sales grew 1.0% in value, with volumes broadly flat, highlighting **marked recovery in 2H25**.
- (Retail sales growth in value: +6.3% in 2H25 vs. -1.4% in 1H25)*
- Looking into 2026, retail sales growth should find additional support from **RMB appreciation**, which boosts mainland tourists' purchasing power, and signs that **mainland outbound travel is being redirected from Japan to Hong Kong** amid Sino-Japan political tensions, **potentially benefiting luxury, jewellery and high-ticket retail segments**.

## FX OUTLOOK

| FX     | Close (NY) | Open*  | Daily %Δ | Forecast |          |
|--------|------------|--------|----------|----------|----------|
| USDJPY | 155.75     | 155.80 | +0.08%   | 152.00   | - 156.00 |
| EURUSD | 1.1819     | 1.1816 | +0.24%   | 1.1800   | - 1.2100 |
| GBPUSD | 1.3697     | 1.3697 | +0.23%   | 1.3500   | - 1.3900 |
| AUDUSD | 0.7021     | 0.7022 | +1.05%   | 0.6800   | - 0.7100 |
| DXY    | 97.4       | --     | ▼0.20%   | 96.5     | - 98.0   |
| USDCNY | 6.9385     | --     | ▼0.10%   | 6.9000   | - 7.0500 |
| USDCNH | 6.9351     | 6.9342 | ▼0.11%   | 6.9100   | - 7.0500 |
| USDHKD | 7.8131     | 7.8133 | +0.03%   | 7.7400   | - 7.8500 |
| USDSGD | 1.2699     | 1.2701 | ▼0.18%   | 1.2620   | - 1.2800 |
| USDKRW | 1451       | 1448   | +0.00%   | 1425     | - 1450   |
| USDTWD | 31.56      | --     | ▼0.12%   | 31.00    | - 31.70  |
| USDINR | 90.27      | --     | ▼1.36%   | 90.00    | - 92.70  |
| USDIDR | 16760      | --     | ▼0.18%   | 16600    | - 17000  |
| USDMYR | 3.932      | 3.931  | ▼0.34%   | 3.900    | - 4.000  |
| USDPHP | 58.90      | --     | ▼0.00%   | 58.30    | - 59.80  |
| USDTHB | 31.54      | 31.66  | ▼0.10%   | 31.0     | - 32.0   |
| USDVND | 26002      | 26002  | ▼0.05%   | 25700    | - 26300  |

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

MARKET MOVES

| Bond Yields | 2Y Close | 10Y Close | 2Y Δ (bps) | 10Y Δ (bps) |
|-------------|----------|-----------|------------|-------------|
| UST (US)    | 3.571    | 4.266     | -0.2       | -1.3        |
| JGB (JP)    | 1.283    | 2.257     | 2.6        | 2.2         |
| Bunds (GE)  | 2.117    | 2.890     | 0.5        | 2.3         |
| Gilts (UK)  | 3.698    | 4.516     | 0.2        | 1.1         |
| AGB (AU)    | 4.252    | 4.834     | 7.0        | 3.6         |
| SGS (SG)    | 1.375    | 2.071     | -0.2       | 1.1         |
| CGB (CN)    | 1.374    | 1.812     | -0.5       | -0.2        |
| KGB (KR)    | 2.961    | 3.598     | 0.0        | 0.0         |
| SDL (IN)    | 5.805    | 6.724     | -3.4       | -4.2        |

| G3 Equities  | Close    | Net Chg | Daily %Δ |
|--------------|----------|---------|----------|
| S&P500 (US)  | 6917.81  | -58.63  | ▼0.84%   |
| Nasdaq (US)  | 23255.19 | -336.92 | ▼1.43%   |
| DJIA (US)    | 49240.99 | -166.67 | ▼0.34%   |
| N225 (JP)    | 54720.66 | 2065.48 | +3.92%   |
| STOXX50 (EU) | 5995.35  | -12.16  | ▼0.20%   |

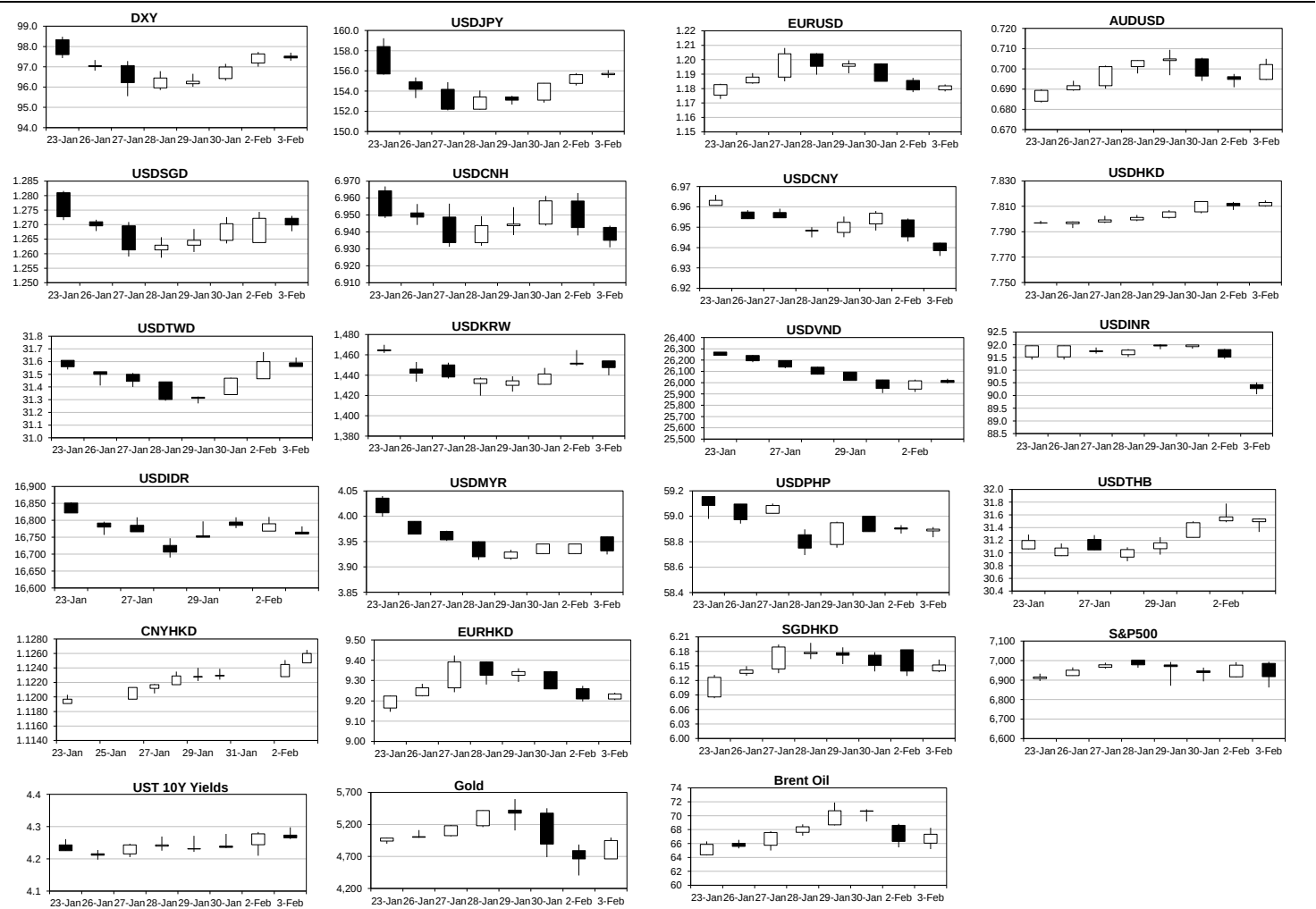
| Commodity     | Close     | Net Chg | Daily %Δ |
|---------------|-----------|---------|----------|
| COPPER (LME)  | 13,408.60 | 576.27  | +4.49%   |
| IRON ORE (CN) | 101.75    | -3.95   | ▼0.88%   |
| GOLD          | 4,946.76  | 285.38  | +6.12%   |
| SILVER        | 85.16     | 0.07    | +2.29%   |
| OIL (BRENT)   | 67.33     | 1.03    | +1.55%   |
| OIL (WTI)     | 63.21     | 1.07    | +1.72%   |
| NATURAL GAS   | 3.31      | 5.89    | +7.43%   |

| Cross FX         | Close (NY) | Open*   | Daily %Δ |
|------------------|------------|---------|----------|
| EUR/JPY          | 184.1      | 184.08  | +0.33%   |
| GBP/JPY          | 213.351    | 213.385 | +0.32%   |
| JPY/SGD (100yen) | 0.8153     | 0.8152  | ▼0.28%   |
| JPY/HKD (100yen) | 5.0152     | 5.0151  | ▼0.08%   |
| CNH/JPY          | 22.43      | 22.453  | +0.08%   |
| CNH/HKD          | 1.126      | 1.1261  | +0.13%   |
| EUR/GBP          | 0.86279    | 0.86267 | ▼0.00%   |
| AUD/NZD          | 1.1612     | 1.1624  | +0.27%   |
| EUR/CNH          | 8.1962     | 8.1931  | +0.12%   |
| GBP/CNH          | 9.4993     | 9.4974  | +0.13%   |
| CNY/HKD          | 1.126      | 1.1261  | +0.13%   |
| EUR/HKD          | 9.2341     | 9.2318  | +0.27%   |
| SGD/HKD          | 6.1518     | 6.1517  | +0.21%   |

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

| Asia Equities | Close    | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| ASX (AU)      | 5555.63  | -16.32  | ▼0.29%   |
| STI (SG)      | 4944.09  | 51.82   | +1.06%   |
| SHCOMP (CN)   | 4067.738 | 51.99   | +1.29%   |
| SZCOMP (CN)   | 2676.844 | 61.41   | +2.35%   |
| HSI (HK)      | 26834.77 | 59.20   | +0.22%   |
| SENSEX (IN)   | 83739.13 | 2072.67 | +2.54%   |
| JSE (ID)      | 8122.597 | 199.87  | +2.52%   |
| KLSE (MY)     | 1748.26  | 7.38    | +0.42%   |
| PSE (PH)      | 6401.96  | 104.88  | +1.67%   |
| SET (TH)      | 1336.11  | 14.69   | +1.11%   |
| VNINDEX (VN)  | 1813.4   | 0.00    | +0.38%   |

CHARTS



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