

Feb 06, 2024

Three Take-Aways

- 1) Latest US employment data from both government agencies and private surveys paint a picture of a lackluster labor market.
- 2) Although the PBoC's latest wave of liquidity injections makes an imminent RRR cut less likely, the central bank has been laying the groundwork for rate cuts with much lower MLF rates.
- 3) India will have to rely on cutting trade deals, not RBI policy rates, for gaining growth tailwinds and easing rupee pressure.

MACRO THEME: Frozen Job Market

- Fresh employment data from both government agencies and private-sector surveys is painting a picture of a lackluster labor market.
- US job openings fell sharply in December, dropping to their lowest level since 2020. Open positions slipped to 6.54 million from a downwardly revised 6.93 million in November, with the steepest declines seen in professional and business services and the retail sector.
- A separate report from outplacement firm Challenger, Gray & Christmas Inc. also suggests layoffs inched higher.
- US companies announced 108,435 job cuts in January, the highest for any January since the depths of the Great Recession in 2009. That figure represents a 118% surge from a year earlier.
- Furthermore, the soft tone continued in weekly data. Initial jobless claims rose more than expected in the final week of January, climbing by 22,000 to 231,000. Continuing claims, a measure of how many people remain on unemployment benefits, increased to 1.84 million.
- That said, the recent severe winter weather that disrupted businesses across the country likely contributed to the uptick, pushing more Americans to seek temporary assistance.

No ECB Surprise

- The ECB kept rates unchanged at 2% as expected. Calling the economy "resilient," the ECB gave no guidance on future moves.

Yields (2Y: -10.3bp; 10Y: -9.5bp; 30Y: -7.6bp)

Equities (Nasdaq: -1.6%; S&P 500: -1.2%; Dow: +1.2%)

FX (DXY: +0.2%)

China: Groundwork for Rate Cuts

- The PBoC has noticeably ramped up liquidity injections in the run-up to the Lunar New Year (15 February). In January alone, it injected a net RMB 1,238.4bn through various policy tools, a 54% jump from December.
- Notably, most of these injections were aimed beyond short-term liquidity smoothing. The bulk came via medium-term Lending facilities (MLF, +RMB 700bn) and pledged supplementary lending (PSL, +RMB 174.4bn).
- On 4 February, the PBoC also rolled over maturing 3M outright reverse repos and delivered a net injection of RMB100b.

DATA/EVENTS

	Actual	Exp.	Prior
(US) Initial Jobless Claims	231k	212k	209k
(EZ) Retail Sales YoY (Dec)	1.3%	1.7%	2.3%
ECB Deposit Facility Rate	2.00%	2.00%	2.00%
(SG) Retail Sales/Ex Auto YoY (Dec)	2.7%/1.7%	8.0%/-	6.3%/5.8%
(AU) Trade Balance (Dec)	A\$3373m	A\$3500m	A\$2936m
(ID) GDP/Annual YoY (4Q/2025)	5.39%/5.11%	5.1%/5.1%	5.0%/5.0%
(TH) CPI/Core YoY (Jan)	-0.66%/0.6%	-0.4%/0.6%	-0.3%/0.6%
(PH) CPI YoY (Jan)	2.0%	1.8%	1.8%
(TW) CPI/Core YoY (Jan)	0.69%/1.24%	1.2%/1.2%	1.3%/1.8%
(TW) PPI YoY (Jan)	2.0%	--	-2.6%
Today	Actual	Exp.	Prior
(US) Consumer Credit (Dec)	\$8.000b	\$4.229b	
(CH) Foreign Reserves (Jan)	\$3370	\$3357.8	

- With another RMB 500bn of 6M outright reverse repos coming due next week, we are likely to see further liquidity injections.

- Naturally, this wave of liquidity injections makes a RRR cut around the Lunar New Year much less likely.

- However, we probably will not wait too long to see the PBoC's next cut to its policy rates or RRR.

- In fact, the PBoC has reportedly lowered the cheapest rate on its one-year MLF loans to banks to 1.5% in January, down from 1.55% in December.

- Although it remains unclear how much MLF loans were entitled to such a rate, this is a substantial decline from last February's 2.0%, the last publicly announced benchmark rate applicable to all banks.

- Supported by such easing measures, China's 1Y CGB yields have remained mostly below 1.4% since last July, even as long-end yields drifted higher.

- Such anchored front-end rates are laying the groundwork for banks to reduce deposit rates, helping preserve their net interest margins should policy rate cuts materialize later this year.

RBI Watch - India Cutting Trade Deals, Not Policy Rate

- India will have to rely on cutting trade deals, not RBI policy rates, for growth tailwinds. Whereas, despite sufficiently soft inflation, we expect no rate cut, given unrelenting rupee pressure.

- The current inflation undershoot providing scope to cut but exaggerates confidence around the cuts that the RBI may push through.

- Point being, headline inflation well below the RBI's inflation target lower bound of 2%, is exaggerated by unsustainable food deflation.

- Core inflation is consistent with more constrained easing.

- And even then, this is contingent on inflation remaining subdued.

- Sustained rupee weakness also elevates the threat of imported inflation.

- But above all, it is the wider macro-stability and asymmetric confidence risks entailed in rupee pressures, which blocks an imminent rate cut.

- What's notable is that the INR has remained woefully soft, with the recent recovery being enabled by their trade deal with the US.

- Without concrete details of the deal, INR gains are far from assured.

- In which case, a rate cut now, in contrast to a hawkish "Powell Pause", will risks instigating another round of rupee sell-off.

- So, while we see more scope for RBI cuts, this will have to be;

1) deferred until the right window of opportunity (amid rupee gains and/or emphatic dovish Fed shifts emerge), and;

2) far more measured than what current inflation rates might otherwise suggest there is scope for.

- We expect a cumulative 50-75bp of cuts (to lower the repo rate to 4.50-4.75%) in H2, conditional on inflation anchoring at the softer side of the RBI's 4%+/-2%-pt inflation target alongside INR stability.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	157.04	156.77	+0.11%	155.00
EURUSD	1.1777	1.1778	-0.01%	1.1700
GBPUKD	1.3531	1.3523	-0.06%	1.3500
AUDUSD	0.6927	0.6915	-0.18%	0.6900
DXY	97.8	--	+0.21%	96.5
USDCNY	6.9384	--	-0.08%	6.9000
USDCNH	6.9405	6.9382	-0.23%	6.9100
USDHKD	7.8143	7.8136	-0.07%	7.7400
USDSGD	1.2754	1.2757	-0.03%	1.2620
USDKRW	1474	1463	-0.07%	1425
USDTWD	31.66	--	+0.30%	31.00
USDINR	90.35	--	-0.09%	90.00
USDIR	16830	--	+0.33%	16600
USDMYR	3.948	3.956	-0.20%	3.900
USDPHP	58.71	--	-0.44%	58.30
USDTHB	31.80	31.85	-0.51%	31.2
USDVND	25965	25970	-0.07%	25700

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.452	4.181	-10.3	-9.5
JGB (JP)	1.280	2.231	0.9	-1.6
Bunds (GE)	2.090	2.842	-0.1	-1.6
Gilts (UK)	3.653	4.558	-5.4	1.3
AGB (AU)	4.286	4.857	-0.6	-0.9
SGS (SG)	1.331	2.006	-2.2	-4.4
CGB (CN)	1.362	1.810	-1.1	-0.5
KGB (KR)	3.007	3.703	0.0	0.0
SDL (IN)	5.719	6.647	-5.7	-5.1

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6798.4	-84.32	▼1.23%
Nasdaq (US)	22540.59	-363.99	▼1.59%
DJIA (US)	48908.72	-592.58	▼1.20%
N225 (JP)	53818.04	-475.32	▼0.88%
STOXX50 (EU)	5925.7	-44.77	▼0.75%

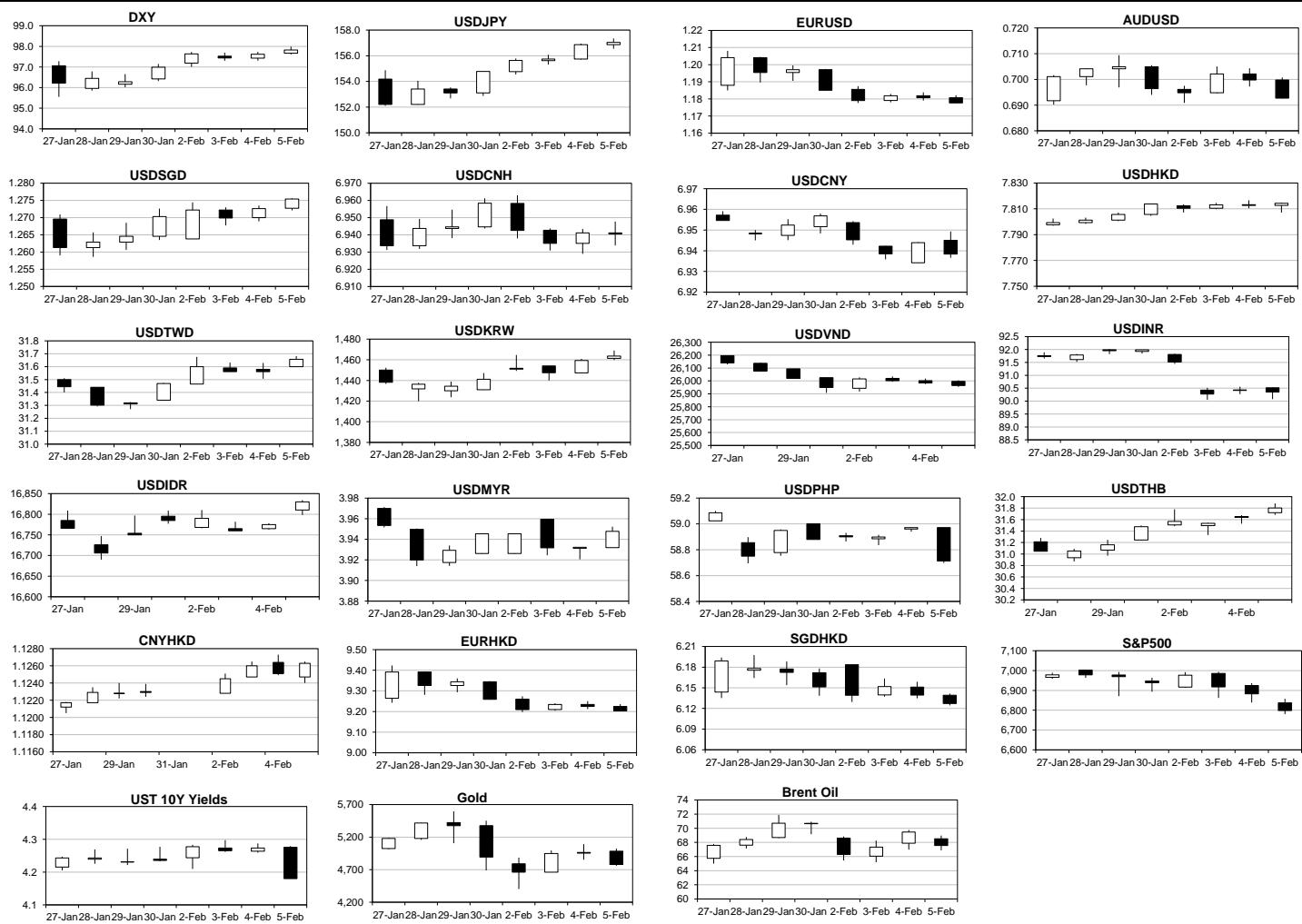
Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	12,825.42	-137.24	▼1.06%
IRON ORE (CN)	100.90	-4.80	▼1.56%
GOLD	4,779.05	-185.88	▼3.74%
SILVER	70.92	0.04	+1.27%
OIL (BRENT)	67.55	-1.91	▼2.75%
OIL (WTI)	63.29	-1.85	▼2.84%
NATURAL GAS	3.51	-17.26	▼19.57%

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	184.91	184.64	▼0.16%
GBP/JPY	212.496	211.985	▼0.78%
JPY/SGD (100yen)	0.8119	0.8138	+0.09%
JPY/HKD (100yen)	4.9758	4.9843	▼0.08%
CNH/JPY	22.606	22.594	+0.13%
CNH/HKD	1.1263	1.1262	+0.11%
EUR/GBP	0.87049	0.87099	+0.68%
AUD/NZD	1.1641	1.1645	▼0.13%
EUR/CNH	8.1738	8.1718	▼0.27%
GBP/CNH	9.3911	9.3822	▼0.90%
CNY/HKD	1.1263	1.1262	+0.11%
EUR/HKD	9.2032	9.2029	▼0.23%
SGD/HKD	6.1272	6.125	▼0.20%

*Open is as at 8am HKT/SGT.

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5548.22	-50.24	▼0.90%
STI (SG)	4975.87	10.37	+0.21%
SHCOMP (CN)	4075.917	-26.29	▼0.64%
SZCOMP (CN)	2650.655	-34.81	▼1.30%
HSI (HK)	26885.24	37.92	+0.14%
SENSEX (IN)	83313.93	-503.76	▼0.60%
JSE (ID)	8103.879	-42.84	▼0.53%
KLSE (MY)	1731.02	-11.80	▼0.68%
PSE (PH)	6382.04	9.09	+0.14%
SET (TH)	1346.23	-0.31	▼0.02%
VNINDEX (VN)	1782.56	0.00	▼0.50%

CHARTS



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