Weekly Macro Views (WMV)

Global Markets Research & Strategy

16 December 2024

Weekly Macro Update

Key Global Data for this week:

16 December	17 December	18 December	19 December	20 December
• **CH** Industrial Production YoY • **CH** Retail Sales YoY • **ID** Exports YoY • **US** S&P Global Mfg PMI • **EC** HCOB Mfg PMI • **JN** Core Machine Orders MoM • **JN** Jibun Bank PMI Mfg	• **SI** Non-oil Domestic Exports YoY • **US** Retail Sales Advance MoM • **GE** IFO Business Climate • **GE** ZEW Survey Expectations • **UK** Jobless Claims Change • **CA** CPI YoY	• **ID** BI-Rate • **TH** BoT Benchmark Interest Rate • **EC** CPI YoY • **UK** CPI YoY • **US** MBA Mortgage Applications • **US** Housing Starts	• **US** FOMC Rate Decision • **US** GDP Annualized QoQ • **UK** BoE Bank Rate • **JN** BoJ Target Rate • **PH** BSP Overnight Borrowing Rate • **TA** CBC Benchmark Interest Rate	• **US** PCE Price Index YoY • **US** Core PCE Price Index YoY • **US** Personal Income • **US** Personal Spending • **US** U. of Mich. Sentiment • **JN** Natl CPI YoY • **HK** CPI Composite YoY

Summary of Macro Views:

Global	• **Central Banks** • **US:** Slight uptick in November CPI • **JP:** Stronger 3Q24 GDP • **GE:** Increasing November CPI
Asia	• **CN:** New economic framework for 2025 • **CN:** Initial signs of stabilisation in the property market

Asia	• **ID:** Expecting a cut • **PH:** Expecting a cut • **TH:** Expecting a hold
Asset Class	• **FX & Rates:** Central Bank Week • **ESG** • **Global Asset Flows**

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Central Banks

Forecast – Key Rates

Bank Indonesia	Bank of Thailand
Wednesday, 18th December	**Wednesday, 18th December**

House Views

BI Rate **Likely *cut* by *25bps* from *6.00%* to *5.75%***	*Benchmark Interest Rate* **Likely hold at 2.25%**

Source: Bloomberg, OCBC.

Central Banks

Forecast – Key Rates

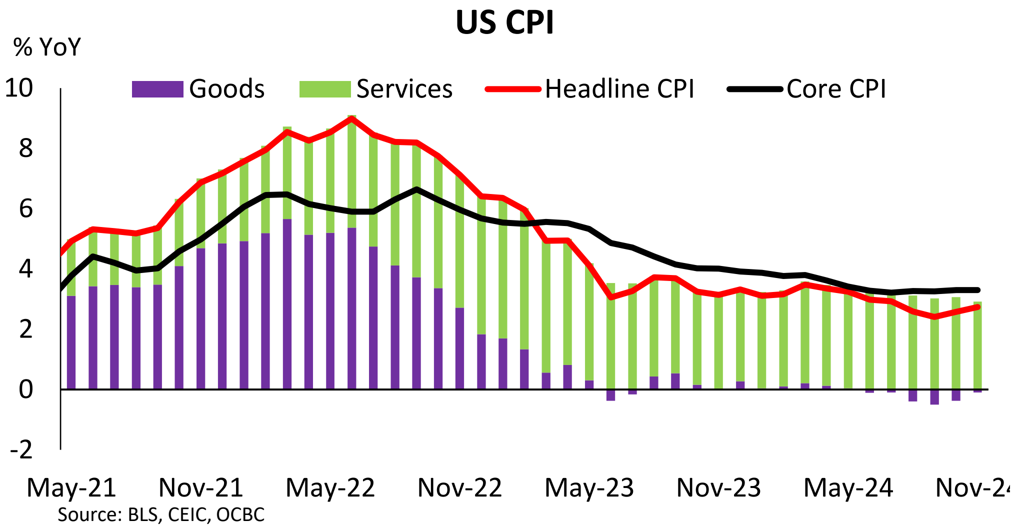
Federal Open Market Committee (FOMC)	Bank of England (BoE)	Bank of Japan (BOJ)	Bangko Sentral ng Pilipinas (BSP)	Central Bank of the Republic of China (CBC)
Thursday, 19th December	**Thursday, 19th December**	**Thursday, 19th December**	**Thursday, 19th December**	**Thursday, 19th December**
House Views				
Fed Funds Target Rate	*Bank Rate*	*Policy Balance Rate*	*Overnight Borrowing Rate*	*Rediscount Rate*
Likely *cut* by 25bps from 4.50% to 4.75% to 4.25% to 4.50%.	**Likely hold at 4.75%**	**Likely *hike* by *15bps* from 0.25% to 0.40%**	**Likely *cut* by *25bps* from 6.00% to 5.75%**	**Likely hold at 2.00%**

Source: Bloomberg, OCBC.

US: Slight uptick in November CPI

- Headline CPI ticked up in November to 2.7% YoY (October: 2.6%; consensus: 2.7%), while core CPI held steady at 3.3% (October: 3.3%; consensus: 3.3%). The uptick in inflation in November was due to the rise in goods inflation. Goods inflation remained negative for the sixth consecutive month at -0.3% YoY (October: -1.1%), albeit rising to the highest reading since May 2024. This rise was largely due to nondurables inflation rising by 0.4% YoY in November, ending three consecutive months of negative inflation. Meanwhile, durable goods inflation rose slightly to -2.0% YoY in November, the highest reading since February 2024, albeit remaining negative for the 24th consecutive month.

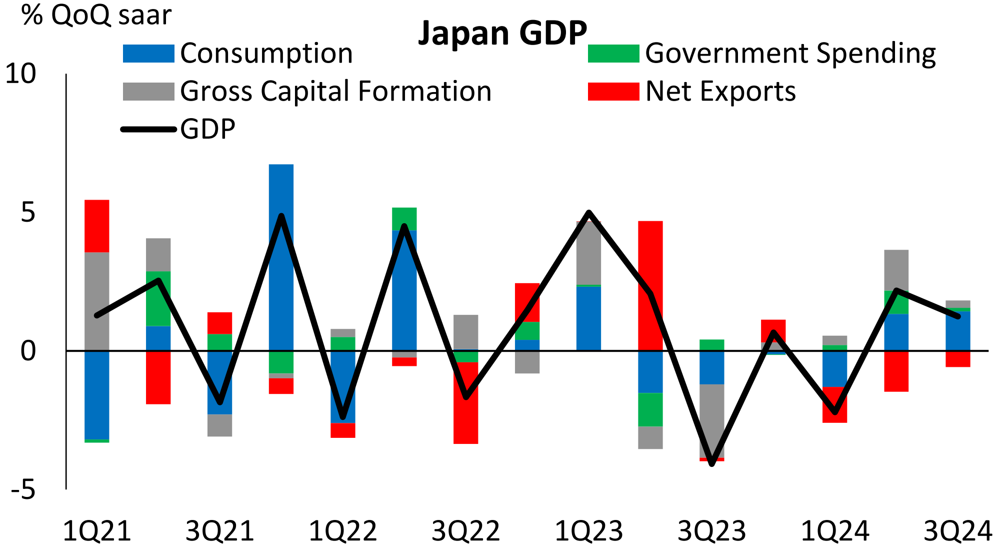
- Services inflation remained the main contributor to elevated prices in November, albeit easing to 4.5% YoY (October 4.7%), which represented the lowest reading since December 2021. Shelter inflation eased to 4.8% YoY in November, the lowest reading since January 2022, while transportation inflation eased to 7.0% YoY from 8.2% in October, the lowest reading since February 2022. The FOMC will meet this week where we expect a 25bp cut that will bring the Fed funds rate to 4.25-4.50%. Additionally, an updated dot-plot will be released after the meeting, which will represent the final one in 2024.



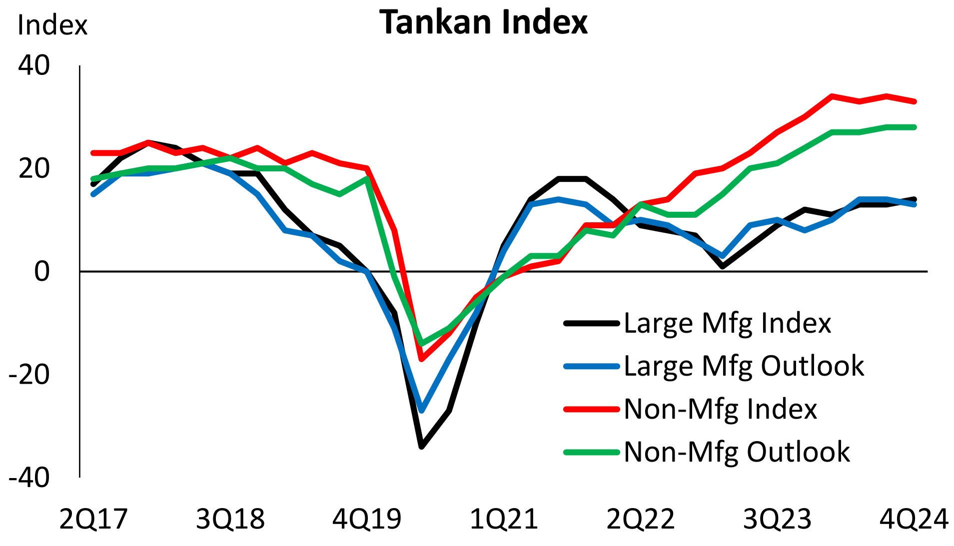
Source: BLS, Bloomberg, OCBC.

JP: Stronger 3Q24 GDP

- 3Q24 GDP growth was revised up to 1.2% QoQ saar from the advance estimate of 0.9%. The main driver of the uptick was stronger export growth, which was revised up to 4.5% QoQ saar from 1.5% in the prior estimate. Meanwhile, import growth slowed to 7.4% QoQ saar from 8.4% in the advance estimate. However, personal consumption was revised downwards to 2.7% QoQ saar from 3.6% prior, while government spending was revised lower to 0.6% from 2.0% prior.
- The 3Q24 GDP print also showed a moderation in gross capital formation growth, which eased to 1.6% QoQ saar from 6.7% in 2Q24. Forward looking Tankan surveys continue to show a strong investment outlook ahead, with the 4Q24 Tankan survey higher than expected across the board. Capital expenditure projections continued to remain strong, rising to 11.3% for FY2024 from 10.6% in the 3Q24 survey.



Source: CEIC, OCBC



Source: Bloomberg, OCBC

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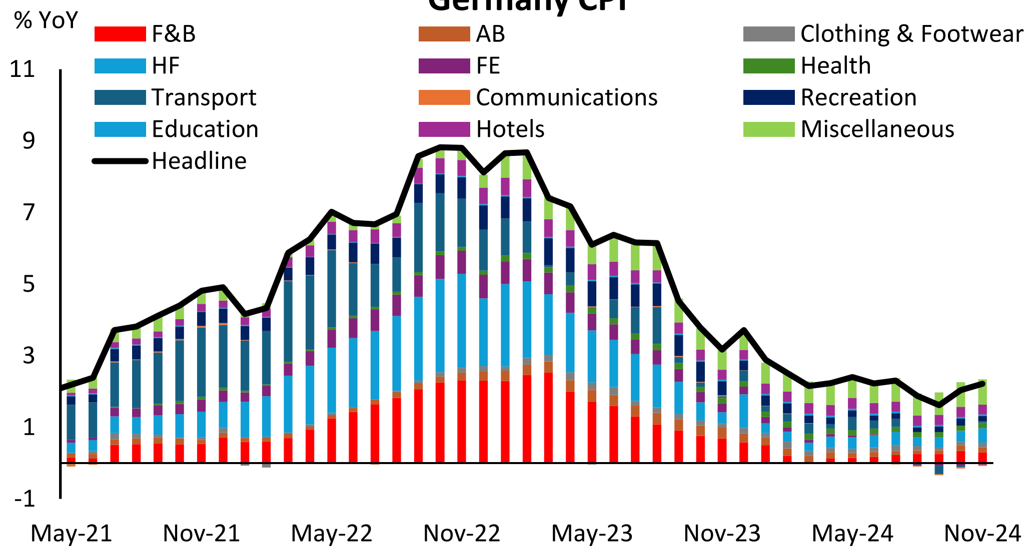
Source: CEIC, Bloomberg, OCBC.

GE: Increasing November CPI

- Headline CPI ticked up slightly in November to 2.2% YoY (October: 2.0%), holding steady from advance estimates. This marked the second consecutive month of rising inflation and the highest reading since July 2024. Higher inflation was observed in the housing and utilities (HF) component of CPI, which rose by 1.6% YoY in November, up from 1.2% in October. This represented the highest reading since December 2023 and the third consecutive month of inflation trending upwards.
- Another driver of the higher inflation print was transport inflation, which rose by 0.3% YoY in November, up from a 0.3% contraction in October. This marked the end of three consecutive months of negative transport prices. The rising inflation was offset slightly by easing food & non-alcoholic beverages (F&B) inflation, which moderated to 2.4% YoY versus 2.8% in October, as well as recreation and culture inflation, which eased to 1.3% versus 1.8% in October.



Source: Destatis, CEIC, OCBC

Source: Destatis, CEIC, OCBC.

China: New economic framework for 2025

- Building on the guiding principles outlined at the Politburo meeting, the Central Economic Working Conference (CEWC), held two days later, provided additional details on China's economic policy direction. The meeting previewed that China will further lower interest rates and the reserve requirement ratio (RRR) while increasing its fiscal deficit, aligning with market expectations.

Five notable changes in the policy tone	
Monetary Policy:	The monetary policy stance will shift to being **moderately loose**, marking a significant departure from the prudent monetary policy regime in place since 2011.
Fiscal Policy:	Fiscal policy will become **more proactive**, signaling an intensification from the current proactive fiscal stance. The last instance of a more aggressive fiscal approach was during the onset of the COVID-19 pandemic when China raised its fiscal deficit target.
Counter-Cyclical Adjustments	For the first time, the policy language includes the term **"extraordinary"** to describe counter-cyclical adjustments
Property and Equity Markets:	The policy explicitly mentions maintaining **stability** in both the property and **equity markets**, with the latter being included for the first time.
Consumption	The government has pledged to **significantly** enhance consumption

Additional details from the Central Economic Working Conference
Firstly, among the nine key economic tasks for 2025, boosting consumption was given top priority. A new concept, "Special Action to Boost Consumption," was introduced, likely integrating efforts to promote consumption with improving social welfare. The focus will be on raising incomes, reducing the financial burden on low- and middle-income groups, and increasing basic pensions and healthcare fiscal subsidies.
Secondly, the meeting emphasized the "comprehensive rectification of involutionary competition" and the standardization of behaviors by local governments and enterprises.
Thirdly, the proposal to "explore and expand the macroprudential and financial stability functions of the central bank" signals a strengthened role for the PBoC in stabilizing real estate and equity markets. This move reflects the increasing importance of the central bank in supporting broader financial stability and ensuring market confidence.

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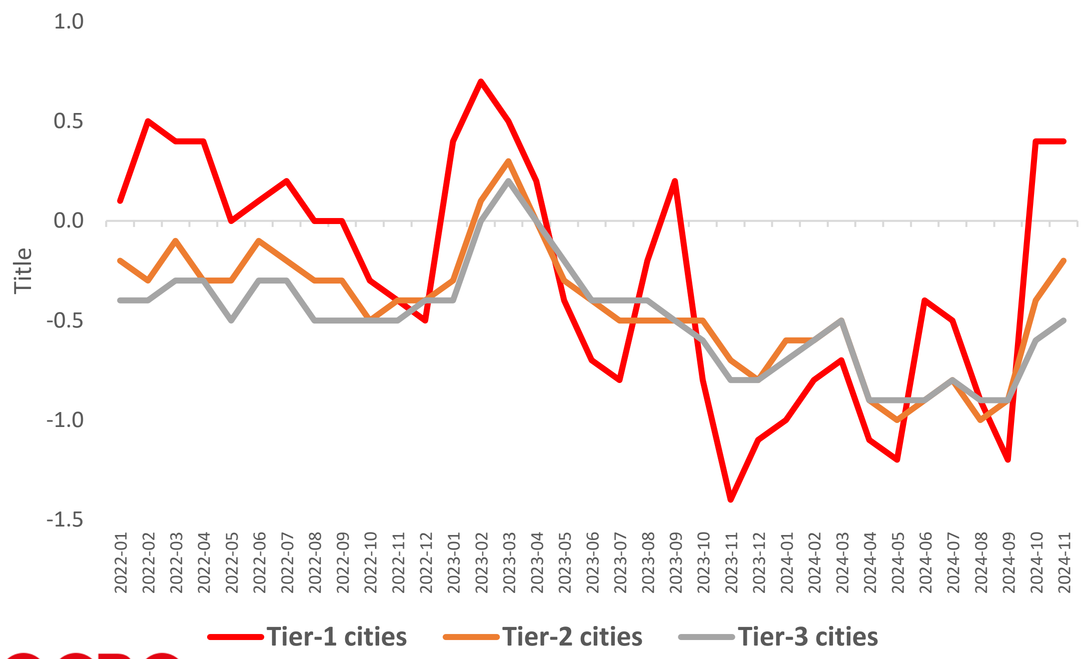
Source: Bloomberg, OCBC.

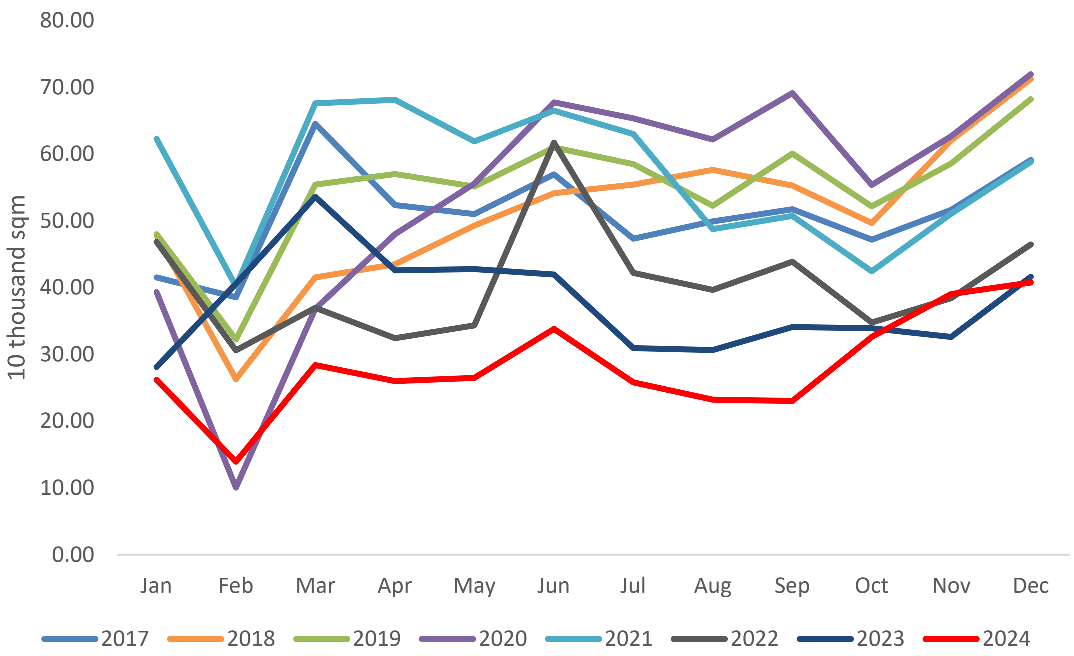
China: Initial signs of stabilisation in the property market

- Although China's property investment remained weak, property sales and property prices showed signs of stabilization. Property sales rebounded in November, rising 3.2% YoY, while resale property prices in tier-1 cities increased MoM for the second consecutive month, indicating gradual recovery in the sector.

Re-sale property price changes %MoM



Average daily property sales in 30 cities

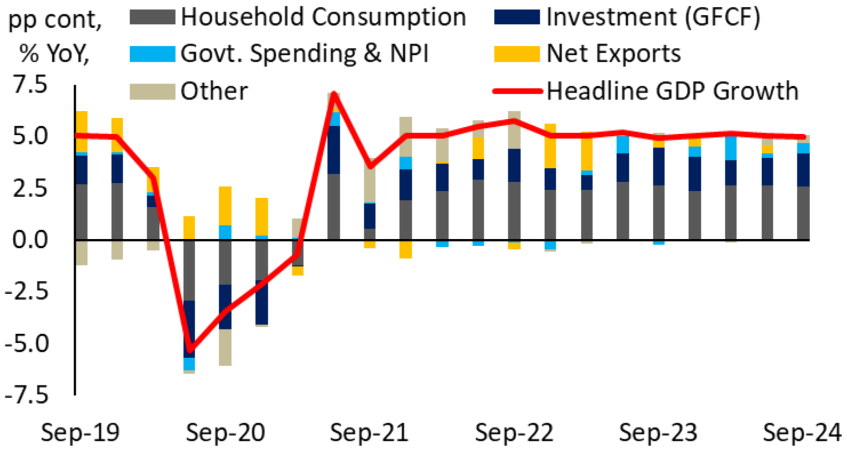


Source: Bloomberg, OCBC.

ID: Expecting a cut

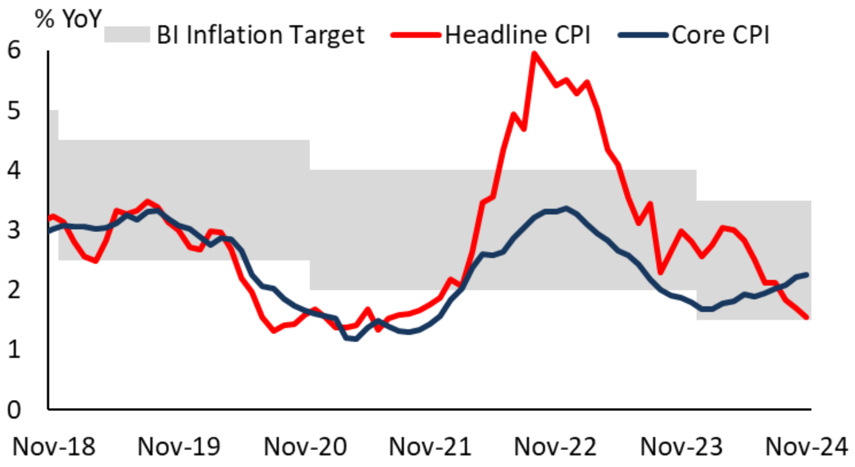
- Our call is for Bank Indonesia (BI) to cut its policy rate by 25bp, but we view the decision at the 18 December meeting as a coin toss. We lean towards BI easing at the upcoming meeting for a few reasons. The market and our house view are for the US Federal Reserve to deliver a 25bp rate cut at its 18 December meeting, allowing for some room for BI to manoeuvre. Importantly, uncertainties could increase in January as President-elect Donald Trump takes oath on 20 and louder protectionist rhetoric cannot be ruled out. Second, IDR depreciation since the US Presidential elections has broadly been in line with regional peers, despite the headline impact of USD/IDR crossing 16,000.
- On the flipside, the arguments for BI to remain on hold are not without merit. Greater IDR volatility and elevated external risks support BI's cautious approach to easing. On balance, however, given that BI is looking for opportunities to ease, we see the 18 December meeting as presenting such a good opportunity.

Indonesia: GDP (Expenditure)



Note: Other refers to combined value of change in inventories and statistical discrepancies. Source: Statistics Indonesia (BPS), CEIC, OCBC.

Indonesia: Headline and core CPI

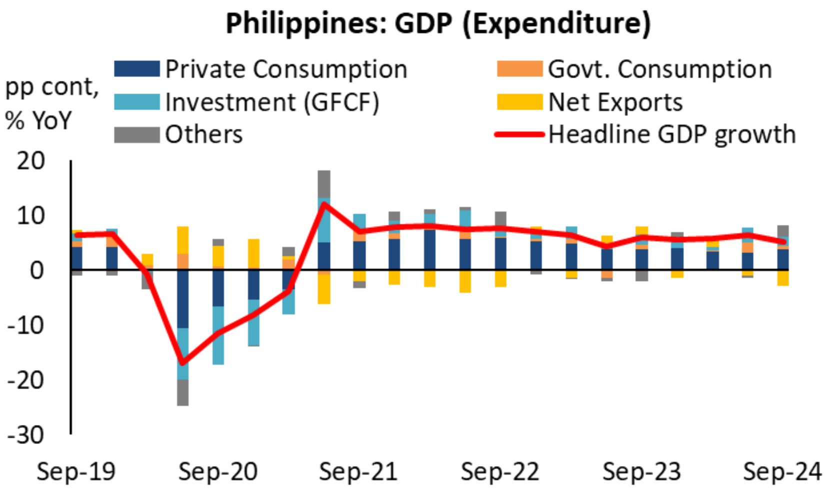


Source: Statistics Indonesia (BPS), Bloomberg, OCBC.

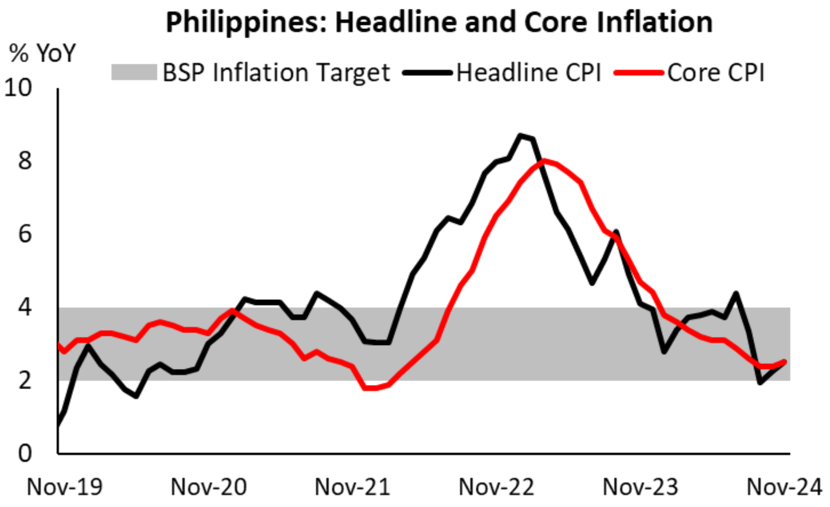
Source: BI, CEIC, Bloomberg, OCBC.

PH: Expecting a cut

- For Bangko Sentral ng Pilipinas (BSP), we expect a 25bps rate cut at its 19 December meeting. We continue to assess that BSP prioritise growth considerations, provided headline inflation remains within its 2-4% target range.
- A recent string of weather disruptions and continued mixed activity data suggest that GDP growth improvements in 4Q24 may be more constrained than previously expected. This would be of relevance to BSP since 3Q24 GDP growth at 5.2% YoY was decidedly weak. Meanwhile, headline inflation came in at 2.5% YoY in November, averaging 3.2% from January to November. The disinflation process remains intact and although headline inflation could rise slightly in December given the recent weather disruptions, we do not expect sharp spikes in key food prices including rice.



Note: Others is defined as the sum of change in inventories, valuables, and statistical discrepancies.Source: CEIC, OCBC

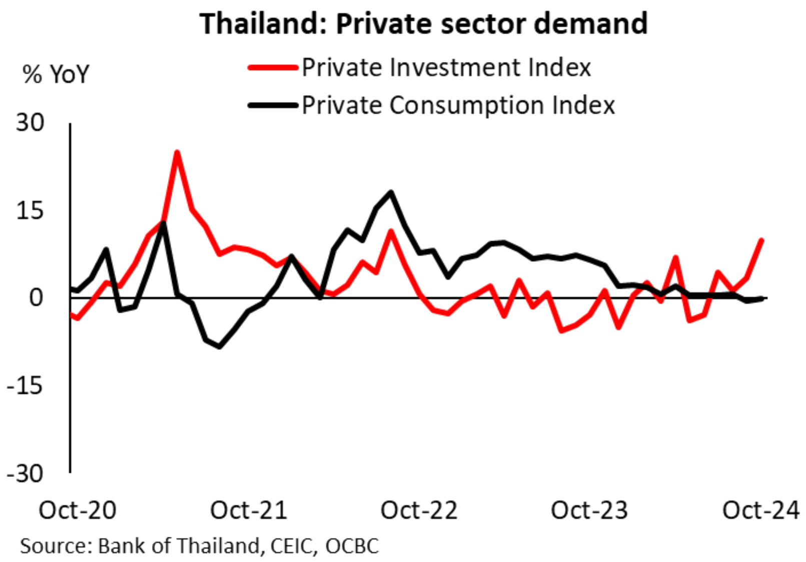


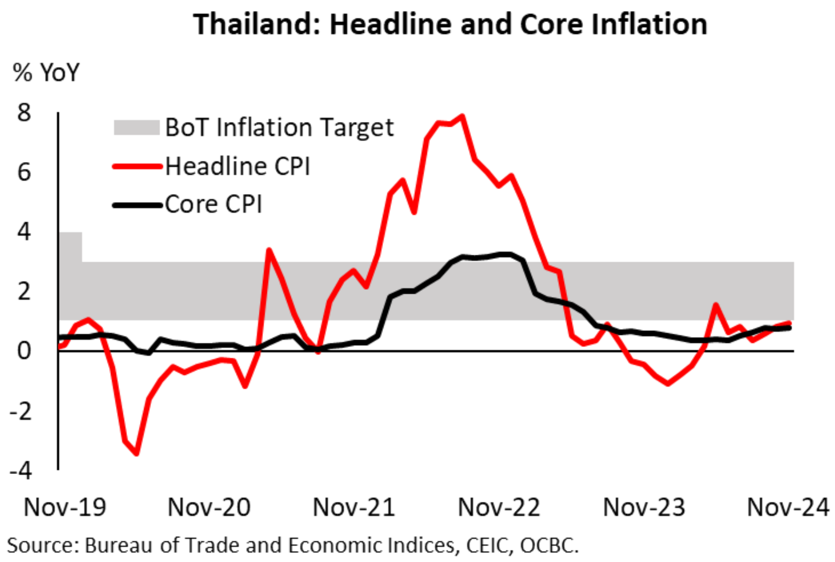
Source: Philippine Statistics Authority, Bangko Sentral ng Pilipinas, CEIC, OCBC.

Source: BSP, CEIC, Bloomberg, OCBC.

TH: Expecting a hold

- Bank of Thailand (BoT) Governor Sethaput Suthiwartnarueput characterised the 25bps rate cut at the 16 October meeting as a “recalibration” and noted that “the bar for taking further rate moves has to be reasonably high”. This clearly shows that BoT is not in a hurry to cut rates and did not see the 25bps rate cut at its 16 October meeting as “the beginning of an extended easing cycle.”
- From a fundamental point of view, the growth-inflation dynamics are still mixed. The activity data for October did not show any clear signs of an improvement in growth while the inflation prints remain below BoT’s 1-3% target range. We expect that the onus to support growth has shifted to the government, which is focused on pushing consumption spending through its flagship digital wallet schemes.





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Source: BoT, Bureau of Trade and Economic Indices, CEIC, OCBC.

FX & Rates

FX & Rates: Central Bank Week

- **USD Rates.** The dot-plot will be in focus as the current pricing of 51bps of cuts in 2025 is more hawkish than the September dot-plot which had the median dot pointing to 100bps of rate cuts for 2025. It would require five individual dots to move up by 25bp to push the median dot up by the same magnitude, hence the bar is not particularly low. Market appears positioned for a higher median dot already; 25bp higher may probably be seen as neutral; 50bp higher will be taken as hawkish and is likely to push market to further pare back rate cut expectation; and an unchanged median dot will be a dovish outcome. In addition, a 5bp cut in the o/n reverse repo rate has been flagged by FOMC minutes, to align with the bottom of the target range for the Fed funds rate; if a 25bp Fed funds rate is delivered that may mean a 30bp cut in the o/n reserve repo rate. There is net coupon bond settlement of USD65bn this week following this week's auction; there is net bill paydown of USD34bn ahead of the reinstatement of the debt ceiling comes January; there is no coupon bond auction this week. Overall, the liquidity condition looks neutral.

- **DXY.** A 25bp cut is more or less a done deal (markets pricing ~93% probability of a cut) but the focus is on the refreshed dot plot, which will provide guidance on Fed members' expectation on rate cut trajectory into 2025 - 26. The previous dot plot back in Sep guided for 4 cuts and markets are now pricing in about 3 cuts. This week brings empire manufacturing, prelim PMIs (Mon); retail sales, IP (Tue); housing starts, building permits (Wed); FOMC, GDP, existing home sales (Thu); core PCE, personal spending, income, Kansas City Fed manufacturing index (Fri).

- **EURUSD.** In the event Chancellor Scholz fails, then Germany is likely to make way for elections on 23 Feb 2025. Far-right AfD is calling for Germany to leave the European Union, the EUR and Paris climate deal as the party prepares for early elections in Feb-2025. The concern here is the explicit language to quit EU unlike its manifesto ahead of the European parliament elections previously in Jun-2024. President Macron has appointed François Bayrou as the new PM of France. The far-left party La France Insoumise has announced it will launch a no-confidence vote to bring down PM Bayrou while other parties appear less aggressive and have laid down conditions for their support. Ongoing political uncertainties in France, Germany may weigh on EUR but like we had flagged, these are already known unknowns (to some extent) and for EUR to push lower, a new catalyst is required (i.e. a hawkish Fed, etc.). Risks are modestly skewed to the upside. Today brings prelim PMIs, labour cost; ZEW survey expectations, trade (Tue); final CPI, construction output (Wed); current account (Thu); consumer confidence (Fri).

FX & Rates: Central Bank Week

- **JPY Rates.** We continue to see this week's BoJ meeting a live one with members considering a rate hike. Economic fundamentals, notably the wage-price virtuous cycle, argue for continued monetary policy normalization; but it is a matter of when the next hike comes. Consensus is looking for a hold on 19 December but with a significant minority calling for a hike. Our base-case is a 15bp hike in the BoJ target rate; while the exact timing of each hike is uncertain, we expect additional rate hikes which will bring the BoJ target rate to 0.85% by end-2025.
- **USDJPY.** We are looking for BoJ to carry on with policy normalization with a hike this week and into 2025. Recent uptick in base pay supports the view about positive development in labour market, alongside still elevated services inflation, better 3Q GDP and expectations for 5-6% wage increases for 2025 should pace the room for BoJ policy normalisation. That said, the risk is a slowdown in Fed and/or BoJ's pace of policy normalisation would affect USDJPY's moves.
- **EUR Rates.** Bunds yields fell upon ECB policy rate cut decision, before rebounding taking cue from the UST market while Lagarde's speech was probably seen as not dovish enough. The MPC statement removed the phrase "will keep policy rates sufficiently restrictive" and Lagarde said the risk to inflation is now "more two-sided" (supposedly as opposed to two-side but tilted more on the upward) – these nevertheless represent dovish tweaks and EUR OIS added to near-term rate cut expectation almost fully pricing in a 50bp cut at the January meeting; however, market mildly pared back expectation for rate cuts further out, with the 1Y1Y rate last at 1.74% versus 1.65% before ECB decision. Our base-case is for additional 75bps of cuts in 2025, bringing the key deposit facility rate to 2.25% which is within ECB staff estimated range for a neutral rate of 1.75-2.50%. Risk is for more or quicker rate cuts should growth turn out to be even weaker than expected and if the ECB judges that lower rates are required to help channel savings into spending and investments. Still, given current dovish market pricing, downside to rates at 2Y and beyond appears very limited.

ESG

ESG: Delay of EUDR pending final sign-off with no change to rules

- The EU reached a tentative deal to postpone the EU Regulation on Deforestation-Free Products (EUDR) by one year after repeated calls from various stakeholders. When the 12-month delay is approved, the EUDR obligations will take effect on 30 Dec 2025 for large and medium companies and 30 June 2026 for micro/small enterprises. Stakeholders emphasize that this extension is essential, especially for small-scale producers facing challenges such as high compliance costs and complex reporting obligations.
- Regulatory uncertainty was another key concern, relating to the EUDR country benchmarking system that will classify countries as low, standard or high risk according to the level of risk of producing commodities linked to deforestation or forest degradation. Countries assessed as low-risk will be subject to simplified due diligence processes, while high-risk countries will face the most stringent measures. There was a proposal to introduce a new ‘no risk’ category of countries that would face significantly less stringent requirements. However, EU governments and lawmakers agreed on the 12-month delay but with no changes to the existing rules.
- The delay can provide more time for stakeholders, especially small-scale producers, to develop the necessary compliance systems in supply chains to meet the regulatory requirements. Trading partners will also closely monitor the country benchmarking system, expected to be finalised by June 2025 through a proposed Implementing Act, which can enable clearer risk classification and due diligence pathways for companies.

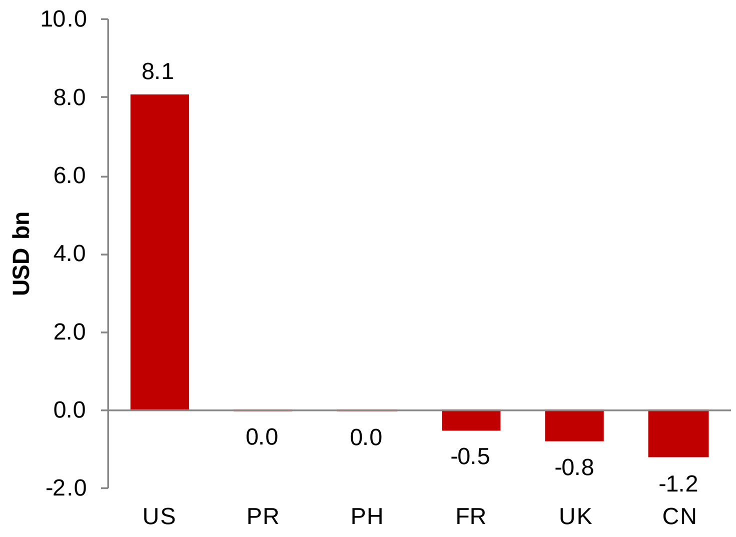
Source: Bloomberg, Reuters

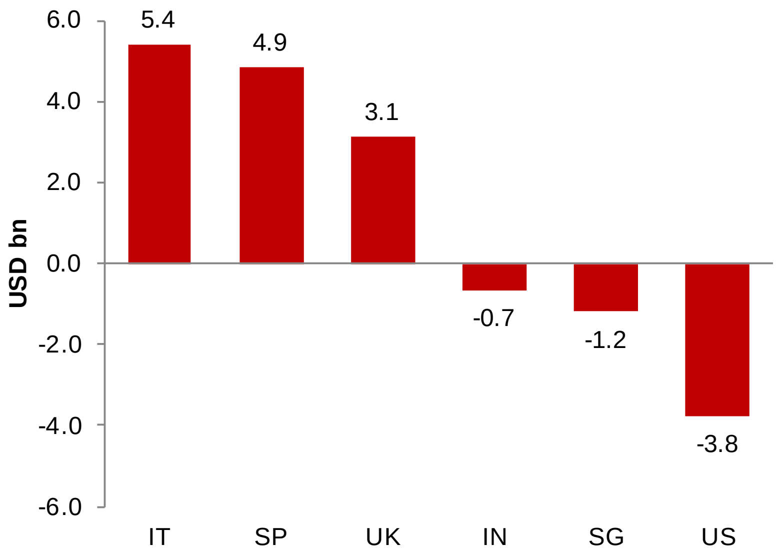
Asset Flows

Global Equity & Bond Flows

- Global equity markets saw net inflows of $8.9bn for the week ending 11 December, an increase from the inflows of $8.2bn last week.
- Global bond markets reported net inflows of $10.5bn, an increase from last week's inflows of $4.9bn.

Equity top gainers & losers	Bonds top gainers & losers

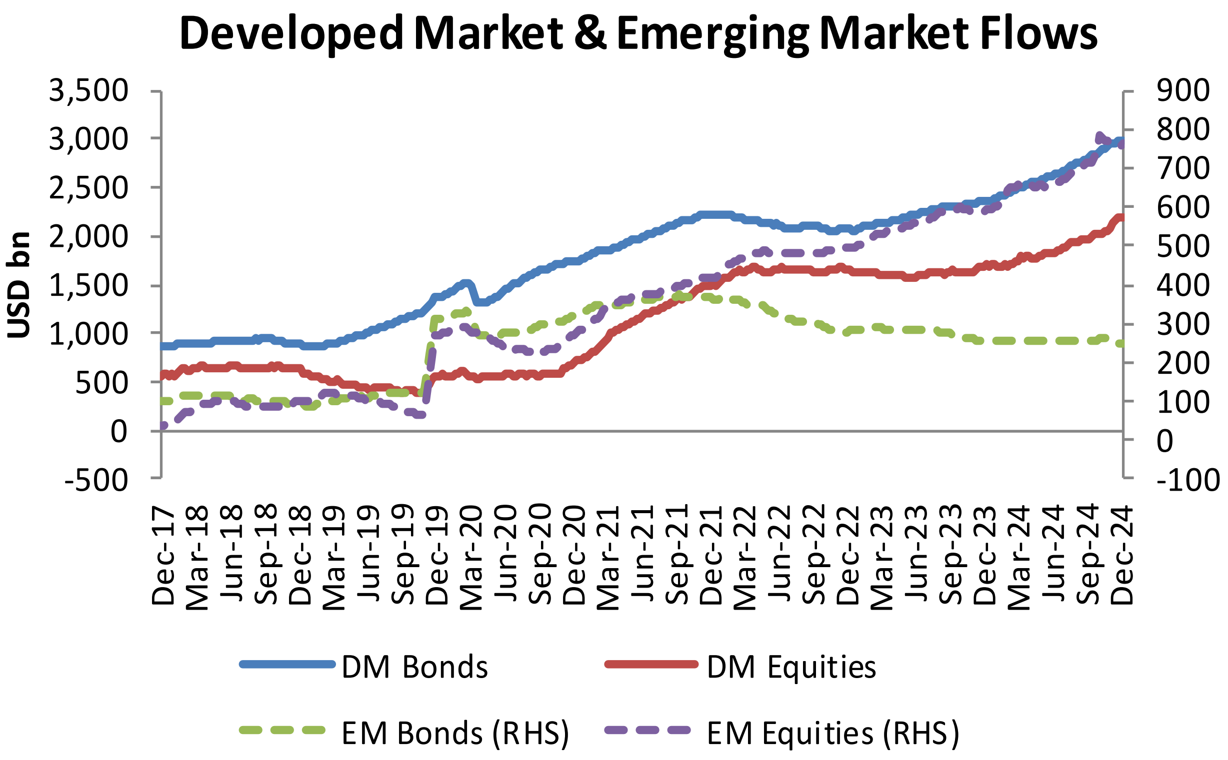




Source: OCBC, EPFR

DM & EM Flows

- Developed Market Equities ($5.5bn) saw inflows and Emerging Market Equities ($3.4bn) saw inflows.
- Developed Market Bond ($11.5bn) and Emerging Market Bond ($661.21mn) saw outflows.



Source: OCBC, EPFR

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