

Daily Breakfast Spread

DBS Group Research

9 February 2010

Economics

G3

- **JP:** Will tomorrow's machinery orders data for December finally point to the beginnings of a turnaround in capital spending trends? Excluding volatile items, our estimates point to a robust 5.3% MoM sa bounce in orders, from a record low of JPY 625.3bn in November (orders had plunged over 11% MoM that month). Consensus is even more upbeat, with an 8.0% MoM jump pencilled in for December. Still, even after factoring in a nice bounce in December orders, for the whole of 4Q09 our forecast still takes orders down 4.0% QoQ sa. Together with the weakness we have seen so far in other domestic indicators – such as consumer confidence, which has disconcertingly regressed these past months – the snapshot on overall GDP for the quarter remains far from rosy. Even if machinery orders did reach their nadir in November, the upturn from hereon is likely to be a grind. Breaking the data down, there has been a consistent downward slide in orders from the non-manufacturing sector, even as orders from the heavily export-driven manufacturing sector have been trending higher. The December reading is likely to bring more of the same.

Currencies

- **Currencies:** With the Dow Jones Industrial Average closing below its psychological 10,000 level for the first time since early November 4, markets are no longer complacent that Greece is only Eurozone's problem. The fact that US Treasury Secretary Timothy Geithner had to lend moral support overnight underscored the severity of the debt problems associated with Eurozone's deficit-laden countries. Even the IMF recognized that it could no longer sit on the sidelines. Last week, the IMF indicated on February 4 that it was ready to provide assistance if Greek asked for it.

The fundamental problem with Greece is credibility, and how to restore it. Credibility was first lost not long after the snap election held on October 9, 2009. The new socialist government revised up budget deficit target to 12.5% of GDP in 2009, which far exceeded the previous conservative government's 3.7% target and the IMF's projection of 5.9% made in August 2009. This started an inquiry into the integrity of Greece's economic data, which Eurozone officials criticized as unreliable and tainted by politics. Until this issue is resolved, Greece will find it difficult to convince Eurozone officials and markets of its plan to rein in its budget deficit. It is probably with this in mind that the IMF offered its help as an independent body. Interestingly, EUR/USD did not fall to the low of 1.3583 seen last Friday, when the Dow first traded below the 10,000 intra-day. In fact, it held up above 1.36 last night and has stayed firm above 1.3650 this morning. One could only surmise that market is contemplating why USD should be spared if Greece is now threatening to pull the Dow lower. Unlike the US-led global crisis in 2H08, there are no shortages of USD liquidity that resulted in USD to become a safe haven. In fact, liquidity is still very ample as evidenced by the steep yield curve, which again reminds market that the global recovery story is still intact. Somewhere, the math doesn't add up. The question that keeps coming up is whether market is overestimating the impact of Greece's problems on the rest of the world. The coming trading sessions will be interesting to watch.

US Fed expectations

Implied fed funds rate

	Mar-10	Jun-10	Sep-10
Market			
Current	0.15	0.19	0.31
1wk ago	0.14	0.19	0.34
DBS	0.25	0.25	0.75

Source: Bloomberg fed fund futures

Notes: Given a FF target rate of 0.25%, an implied FF rate of 0.30 is interpreted roughly as the market pricing in a 20% chance of a Fed hike to 0.50% from 0.25% (30 is 1/5th of the distance to 50 from 25). DBS expectations are presented in discrete blocks of 25bps, i.e., the Fed moves or it does not. See also "Policy rate forecasts" below.

Fixed Income

- **US:** The US Treasury will auction \$40bn of 3Y notes tonight and the sale's performance will be taken as a gauge of demand strength for the \$25bn of 10Y notes that will be auctioned Wednesday night and the \$16bn of 30Y bonds that will hit the market Thursday night. While equity markets remain under pressure amid ongoing concern about a sovereign debt crisis in Europe, it is unlikely that the impact of this week's debt sales on the market will be bullish. The 2Y/10Y benchmark curve is more likely to steepen than flatten. Despite a 1.04% fall in the Dow Jones Industrial Average overnight, Treasury yields rose about 1bps across the curve to 0.77% in the 2Y sector and 3.57% in the 10Y sector yesterday.

Looking back

- **US mkts:** US stocks fell overnight as concerns over sovereign debt risk in Europe continue to weigh on the market. The Dow Jones Industrial Average fell 1.04% to 9908.39 and the Nasdaq closed 0.7% lower at 2126.05. Treasury yields rose about 1bps across the curve to 0.77% in the 2Y sector and 3.57% in the 10Y sector ahead of hefty supply in 3Y, 10Y and 30Y bonds this week.

Economic calendar

<u>Event</u>	<u>Consensus</u>	<u>Actual</u>	<u>Previous</u>
<u>Feb 8 (Mon)</u>			
JP: Adj current acc (Dec)	JPY 1250bn	JPY 1100.5bn	JPY 1305bn
TW: trade balance (Jan)	USD 1.96bn	USD 2.49bn	USD 1.65bn
-- exports	62.9% y/y	75.8% y/y	46.9% y/y
-- imports	100.8% y/y	114.7% y/y	56.2% y/y
<u>Feb 10 (Wed)</u>			
JP: machine order (Dec)	8.0% m/m sa		-11.3% m/m sa
PH: exports (Dec)	35.3% y/y		5.1% y/y
ID: GDP (4Q)	5.04% y/y		4.21% y/y
CN: trade balance (Jan)	USD 20.0bn		USD 18.43bn
-- exports	28.0% y/y		17.7% y/y
-- imports	85.2% y/y		55.9% y/y
MY: industrial production (Dec)	8.6% y/y		-1.3% y/y
KR: unemployment rate (Jan)			3.5% sa
US: MBA mortgage appln (Feb)			21.0%
US: trade balance (Dec)	-USD 35.8bn		-USD 36.4bn
<u>Feb 11 (Thur)</u>			
CN: CPI (Jan)	2.1% y/y		1.9% y/y
US: retail sales (Jan, A)	0.3% m/m sa		-0.3% m/m sa
US: initial jobless claims (Feb)	465K		480K
<u>Feb 12 (Fri)</u>			
IN: industrial production (Dec)	12.6% y/y		11.7% y/y
EZ: industrial production (Dec)	0.1% m/m sa		1.0% m/m sa
EZ: GDP (4Q, A)	0.3% q/q sa		0.4% q/q sa
--	-1.9% y/y		-4.0% y/y

Central bank policy calendar

<u>Date</u>	<u>Country</u>	<u>Policy Rate</u>	<u>Current (%)</u>	<u>Consensus</u>	<u>DBS</u>	<u>Actual</u>
<u>This week</u>						
11-Feb	KR	7-day repo rate	2.00%	2.00%	2.00%	
11-Feb	EZ	Feb mthly bulletin				
11-Feb	US	Monthly budget statement (Jan)				
<u>Next week</u>						
18-Feb	JP	O/N call rate	0.10%	0.10%		
19-Feb	JP	BOJ monthly report				
<u>Last week</u>						
04-Feb	ID	o/n reference rate	6.50%	6.50%	6.50%	6.50%
04-Feb	EZ	Refi rate	1.00%	1.00%	1.00%	1.00%

GDP & inflation forecasts

	GDP growth, % YoY					CPI inflation, % YoY				
	2006	2007	2008	2009f	2010f	2006	2007	2008	2009f	2010f
US	2.7	2.1	0.4	-2.4	3.2	3.2	2.9	3.8	-0.3	1.8
Japan	2.0	2.3	-0.7	-5.3	2.0	0.2	0.1	1.4	-1.3	-0.4
Eurozone	3.1	2.7	0.5	-3.9	1.1	2.2	2.1	3.3	0.3	1.2
Indonesia	5.5	6.3	6.1	4.5	5.5	13.3	6.3	9.8	4.9	4.6
Malaysia	5.8	6.4	4.6	-2.4	5.0	3.6	2.0	5.4	0.6	1.6
Philippines	5.4	7.2	4.6	1.0	4.8	6.3	2.8	9.3	3.3	4.0
Singapore	8.2	7.7	1.1	-1.9	6.0	1.0	2.1	6.5	0.3	3.2
Thailand	5.1	4.9	2.5	-3.0	4.2	4.6	2.2	5.5	-0.9	2.9
Vietnam	8.2	8.5	6.2	5.1	6.2	7.5	8.3	23.3	6.9	7.4
China	11.6	13.0	9.1	8.2	9.5	1.5	4.8	5.9	-0.8	4.0
Hong Kong	7.0	6.4	2.5	-2.4	5.5	2.0	2.0	4.3	0.5	3.0
Taiwan	5.4	6.0	0.7	-2.7	6.3	0.6	1.8	3.5	-0.9	0.9
Korea	5.2	5.1	2.2	0.2	5.4	2.2	2.5	4.7	2.8	2.9
India*	9.7	9.0	6.7	6.8	7.9	5.4	4.7	8.4	2.6	5.0

* India data & forecasts refer to fiscal years beginning April; inflation is WPI
Source: CEIC and DBS Research

Policy & exchange rate forecasts

	Policy interest rates, eop					Exchange rates, eop				
	current	1Q10	2Q10	3Q10	4Q10	current	1Q10	2Q10	3Q10	4Q10
US	0.25	0.25	0.25	0.75	1.25	...	...	...	...	...
Japan	0.10	0.10	0.10	0.10	0.10	89.3	87	86	85	84
Eurozone	1.00	1.00	1.00	1.25	1.50	1.366	1.51	1.52	1.53	1.54
Indonesia	6.50	6.50	6.50	7.25	8.00	9,405	9,100	8,950	8,850	8,700
Malaysia	2.00	2.00	2.00	2.25	2.75	3.45	3.32	3.29	3.27	3.24
Philippines	4.00	4.00	4.00	4.25	4.75	46.6	45.2	44.8	44.4	44.0
Singapore	n.a.	n.a.	n.a.	n.a.	n.a.	1.42	1.37	1.36	1.35	1.34
Thailand	1.25	1.25	1.25	1.50	2.00	33.2	33.1	32.8	32.6	32.3
Vietnam^	8.00	8.50	9.00	9.50	10.00	18,474	19,300	19,410	19,530	19,640
China*	5.31	5.31	5.58	5.85	6.12	6.83	6.81	6.74	6.68	6.62
Hong Kong	n.a.	n.a.	n.a.	n.a.	n.a.	7.77	7.75	7.75	7.75	7.75
Taiwan	1.25	1.25	1.25	1.50	1.75	32.2	31.6	31.2	30.9	30.5
Korea	2.00	2.00	2.50	3.00	3.50	1170	1110	1090	1070	1050
India	4.75	5.50	6.25	6.50	6.75	46.8	45.1	44.6	44.0	43.5

^ prime rate; * 1-yr lending rate

Market prices

	Policy rate	10Y bond yield		FX		Equities		
	Current (%)	Current (%)	1wk chg (bps)	Current	1wk chg (%)	Index	Current	1wk chg (%)
US	0.25	3.57	-7	80.3	1.3	S&P 500	1,057	-3.0
Japan	0.10	1.37	1	89.3	1.2	Topix	883	-1.7
Eurozone	1.00	3.15	-4	1.366	-2.2	Eurostoxx	2,399	-3.7
Indonesia	6.50	9.84	3	9405	0.0	JCI	2,476	-4.3
Malaysia	2.00	4.26	-2	3.45	-0.8	KLCI	1,235	-1.9
Philippines	4.00	8.09	2	46.6	0.1	PCI	2,847	-1.3
Singapore	Ccy policy	2.52	1	1.423	-1.0	FSSTI	2,694	-1.6
Thailand	1.25	3.84	-5	33.2	-0.2	SET	688	-1.4
China	5.31	...	...	6.83	0.0	S'hai Comp	2,935	-0.2
Hong Kong	Ccy policy	2.83	2	7.77	-0.1	HSI	19,551	-3.4
Taiwan	1.25	1.47	-1	32.2	-0.5	TWSE	7,216	-2.9
Korea	2.00	5.35	-1	1170	-0.9	Kospi	1,553	-3.3
India	4.75	7.67	-1	46.8	-0.9	Sensex	15,936	-1.4

Source: Bloomberg

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