

January 15, 2025

Interpretations

- **Korea December unemployment jumps 1% to 3.7%** - highest since December 2021 - blamed on uncertainty and political turmoil- while former President Yoon arrested - Kospi off 0.02%, KRW up 0.15% to 1458.3
- **Japan MoF Kato warns on FX speculation** -working closely with BOJ - while **January Reuters Tankan index up 3 to +2** -but outlook flat and BOJ Governor Ueda confirms rate hike risk live for next week- Nikkei off 0.08%, JGB 10Y up 1bps to 1.24%, JPY up 0.6% to 156.90
- **ECB Lane: EUR weakness mostly absorbed by firms**, will play out over time - service inflation moderating -while November industrial production up 0.2% m/m, -1.9% y/y - with energy production reversal – EuroStoxx up 0.7%, EUR flat at 1.0305
- **German 2024 full year GDP off 0.2% after 0.3%** with construction and manufacturing weakness - and below +1.1% decade average - while WPI edges up 0.1% in December first rise in 20-months - DAX up 0.9%, Bund 10Y off 2.5bps to 2.62%
- **UK December CPI up 0.3% m/m, 2.5% y/y** - matching BOE forecasts - but lower than market expected led by service prices drop – FTSE up 0.8%, Gilt 10Y off 9.5bps to 4.795%, GBP flat at 1.2215

Summary

Risk on but more in EMEA and less in APAC as China gives back some of the outsized gains from yesterday, Japan worries about BOJ rate hikes, BI rate cut today

didn't inspire other bourses and the USD remains too high for comfort. The biggest story in Asia was from Korea where former President Yoon was arrested and questioned over martial law edict in December, that turmoil showed up in jobs and worries investors about growth into 2025, but KRW is up and Kospi flat. In Europe, unrevised inflation from France, Sweden, Spain helped but German 2024 recession confirmation leaves the largest economy in EU down for 2-years with WPI higher not adding to hopes for better times, nor did ECB Lane provide any comfort on EUR.

The UK CPI is the bigger story overnight with the 30-year Gilt yields 10bps lower from their Monday highs as lower than feared inflation helps keep BOE policy support for growth intact. The interpretation from overnight – rates still lead but growth policy over FX or other worries key.

What's different today:

- **Indonesia BI cuts rates 25bps to 5.75% - surprising markets**
which expected hold due to IDR weakness, which is 1% weaker from 2024.
- **Trump advisors concede Ukraine peace deal months away - with Putin sending mixed signals** – WTI is still up 0.4% on the day after API showed weekly crude oil inventories fell 2.5mb in line with expectations
- **iFlow shows show equities mostly bid** – despite US outflows with APAC the exception led by Malaysia and Taiwan. The Fixed Income markets are selling bonds again except in the US and Turkey. The USD is seeing modest inflows while AUD and NZD are sold in G10 and in EM its been ILS and SGD selling.

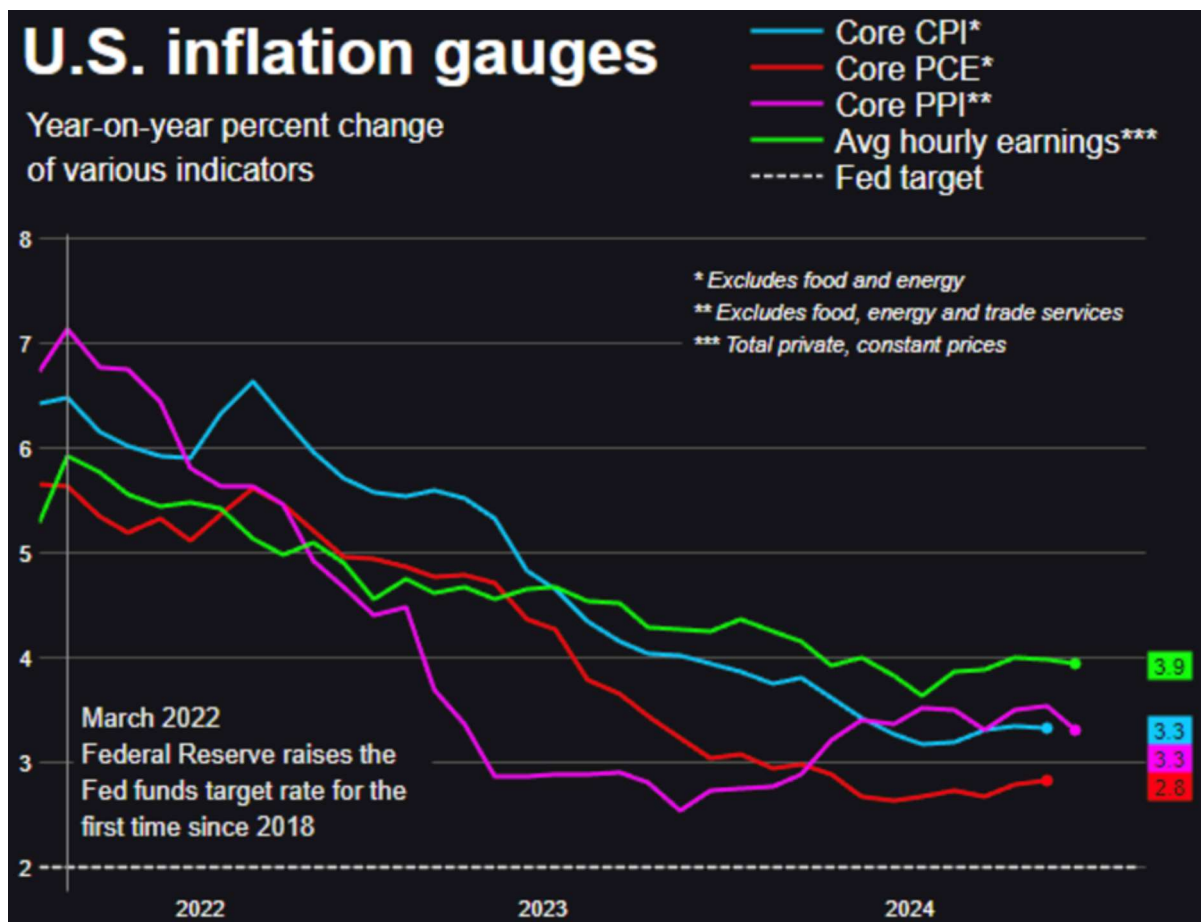
What are we watching:

- **4Q bank earnings** - with focus on JPM, GS and Citi - with focus on trading revenues after BlackRock beats expectations.
- **US December consumer price index** expected up 0.4% m/m, 2.9% y/y after 0.3% m/m, 2.7% y/y with core expected 3.3% y/y flat.
- **NY January Empire Fed manufacturing survey** expected up 3 from 0.2 with focus on jobs/prices
- **US Federal Reserve Beige Book** of economic conditions – with focus on prices and jobs.
- **Central Bank Speakers:** New York Federal Reserve President John Williams, Chicago Fed President Austan Goolsbee, Minneapolis Fed chief Neel Kashkari and Richmond Fed chief Thomas Barkin all speak; Bank of England policymaker Alan Taylor and BoE Executive Director for Financial Stability Strategy and Risk Nathanael Benjamin both speak.

The Takeaways:

Which Prices Matter? The shift from worrying about inflation rather than growth has been part of the volatility in 2025 as the US jobs report was strong enough to make clear worries about a slowdown were misplaced. Most of 4Q was about growth rather than inflation – with US exceptionalism based on US GDP beating EU. That should show up today with German GDP for 2024 negative, but the EUR is flat today. The better news on inflation from the UK and in Sweden matter today however the US CPI will remain the key for most investors as US rates are still in charge of risk appetites globally. Watching the US CPI may not be sufficient to convince the US bond market that the Fed can cut in March or June as the prices push 1 cut to September after US non-farm payroll growth. The key is what the data says more than what traders think and how we interpret that data as it meanders into a new Administration with trade disruptions widely expected with some risk to upside inflation to follow.

Exhibit #1: Is US CPI going to drive a bond relief rally?



Source: Reuters, BNY

Quotes of the Day:

“There are no facts, only interpretations.” - Friedrich Nietzsche

"I am responsible for what I say, but I'm not responsible about how people interpret my situation." - Juan Pablo Galavis

- **Korea December unemployment jumps to 3.7% from 2.7% - worse than the 2.8% expected.** The number of employed persons declined by 52,000 in December compared to the previous year, reversing a gain of 123,000 in November. This marked the first decline in employment since February 2021. The employment to population ratio fell 0.3% y/y to 61.4%.
- **Japan January Reuters Tankan index rises to 2 from -1 - as expected.** The service index rose to 1 to 31 with outlook flat at 31 for April. The manufacturing improvement was largely driven by stronger conditions in materials industries, although manufacturers' outlook remains cautious - flat at +2 - due to uncertainty surrounding proposed policies from former President Trump. The most notable recovery in sentiment was observed in upstream sectors such as steel, oil refining, and chemicals, fueled by a pickup in global demand. However, sentiment in machinery sectors, including automotive and electronics, declined in January. Even among sectors that showed improvement, concerns lingered, with many respondents pointing to weak domestic demand in Japan. Several chemical industry leaders also expressed caution, citing challenges in local markets
- **Eurozone November industrial production +0.2% m/m, -1.9% y/y after +0.2% m/m, -1.1% y/y - weaker than 0.3% m/m rise expected.** Output rebounded for energy (1.1% vs -1.3% in October), durable consumer goods (1.5% vs -1.6%) and non-durable consumer goods (0.1% vs -2.4%). Also, production advanced for intermediate goods (0.5% vs 0.3%) and capital goods (0.5% vs 1.7%). Among major Euro Area economies, Germany posted a significant 1.3% rise in production, while France recorded a smaller 0.2% increase. Conversely, Spain reported a decline of 1.5%
- **Sweden December final CPI rose 0.3% m/m, 1.5% y/y after 0.5% m/m 1.8% y/y - same as flash - while headline CPI was 0% m/m, 0.8% y/y - also unrevised.** Inflation fell from 6-month highs.
- **UK December CPI rose 0.3% m/m, 2.5% y/y after 0.1% m/m, 2.6% y/y - matching BOE forecast.** The annual core inflation rate also declined to 3.2% from 3.5% and the monthly rate went up to 0.3%, below forecasts of 0.5%. Prices slowed for restaurants and hotels (3.4%, the lowest since July 2021 vs 4%), mainly due to a 1.9% fall in prices of hotels. Inflation also slowed for recreation and communication (3.4% vs 3.6%) and services (4.4%, the lowest since March 2022 vs 5) and steadied for food and non-alcoholic

beverages (at 2%). Meanwhile, prices decreased less for transport (-0.6% vs -0.9%) as upward effects from motor fuels and second-hand cars (1%) partially offset a downward effect from air fare (-26%). Also, prices rose slightly more for housing and utilities (3.1% vs 3%).

Please direct questions or comments to: iFlow@BNY.com

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