FINANCIAL MARKETS VIEWS&ANALYSIS

FX, Fixed income, Econ, Facts & Fallacies

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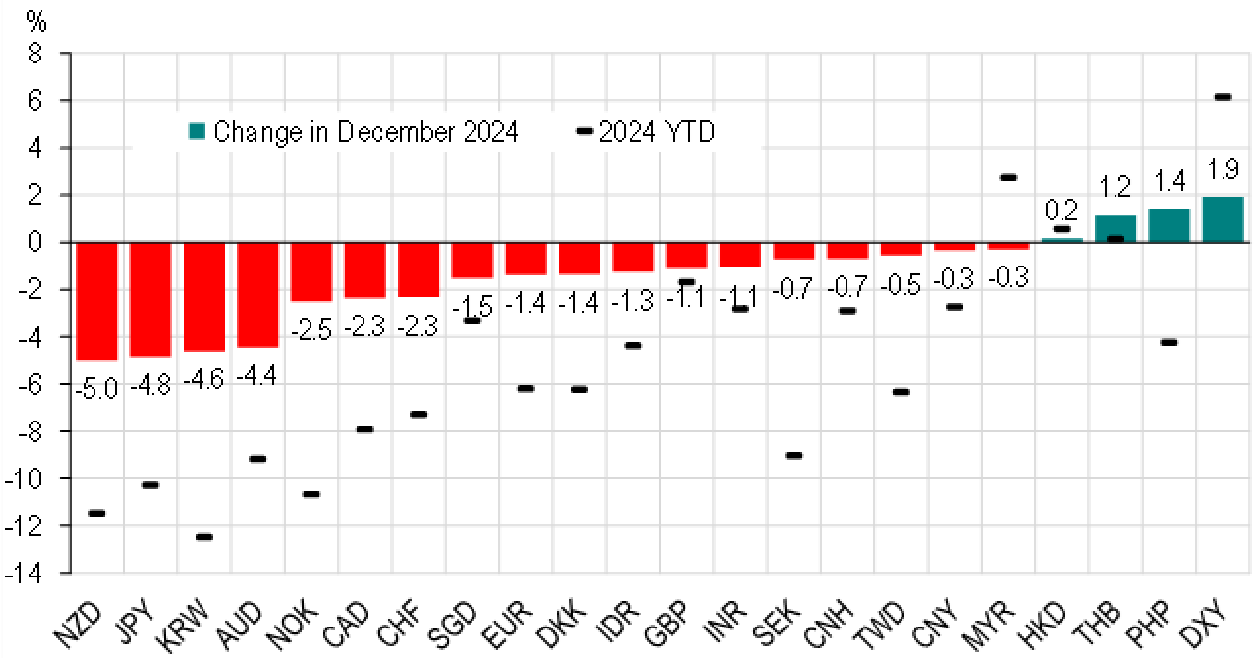
Capital markets recap, December 2024

- **The US dollar strengthened further in December, rising by 1.9% to surpass the 108 mark, its highest level since November 2022. It outperformed other currencies in 2024, closing the year more than 6% stronger. This surge was driven by expectations of slower Fed rate cuts and concerns over the potential inflationary impact of President Trump's policies. In contrast, most other currencies weakened in December and throughout 2024, except for the Thai baht, which gained 1.2% in December and closed the year at 34.095 baht per US dollar, not far from our estimate of 34.50.**
- **Government bond yields in major economies generally rose in December, closing the year at higher levels, particularly in the US, despite the Fed reducing interest rates by 100bps. One key factor driving this trend was the so-called "Trump trade." In Thailand, the 10-year bond yield closed slightly lower by around 2 bps in December and fell by 39 bps throughout 2024, amid expectations of further rate cuts by the Bank of Thailand (BoT)**

Figure 1: Change in major currencies during December and 2024



Source: Bloomberg, KBank

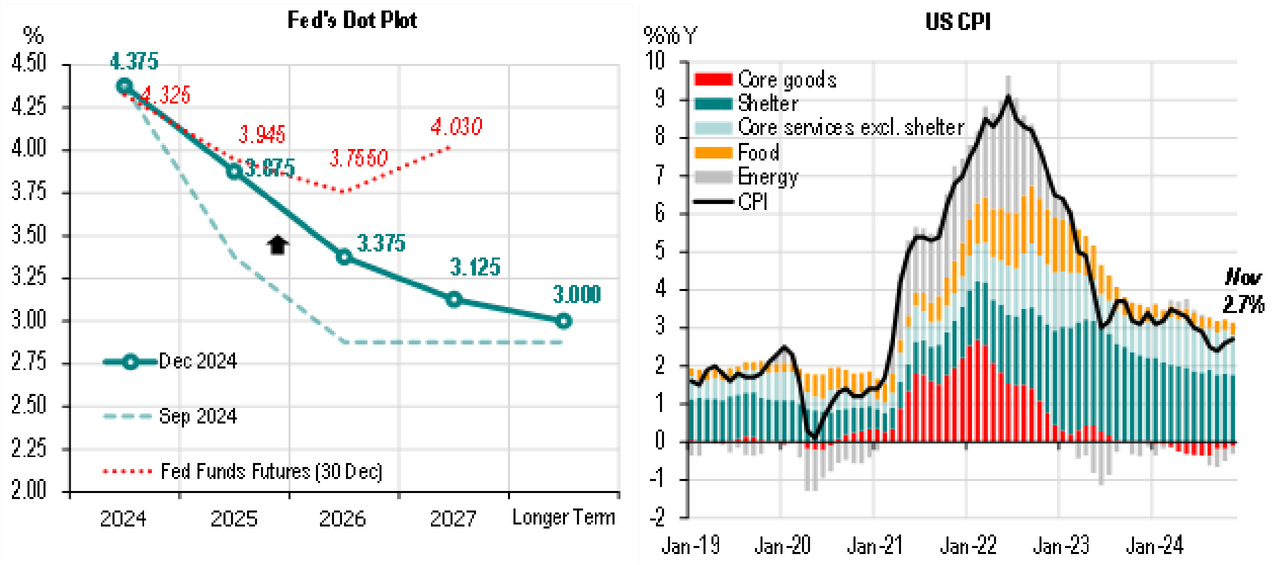
US dollar outperforms in 2024, ending the year over 6% stronger—its best performance since 2015

The US dollar strengthened further in December, rising by 1.9% to surpass the 108 mark, its highest level since November 2022. The currency has gained over 6% in 2024, marking its strongest yearly advance since 2015 and delivering the highest returns in the currency market.

This surge comes amid expectations of slower Fed rate cuts going forward. Market expectations for rate cuts have moderated as US economic data remains robust, including stronger-than-expected job gains, retail sales, and a Services PMI that hit a three-year high.

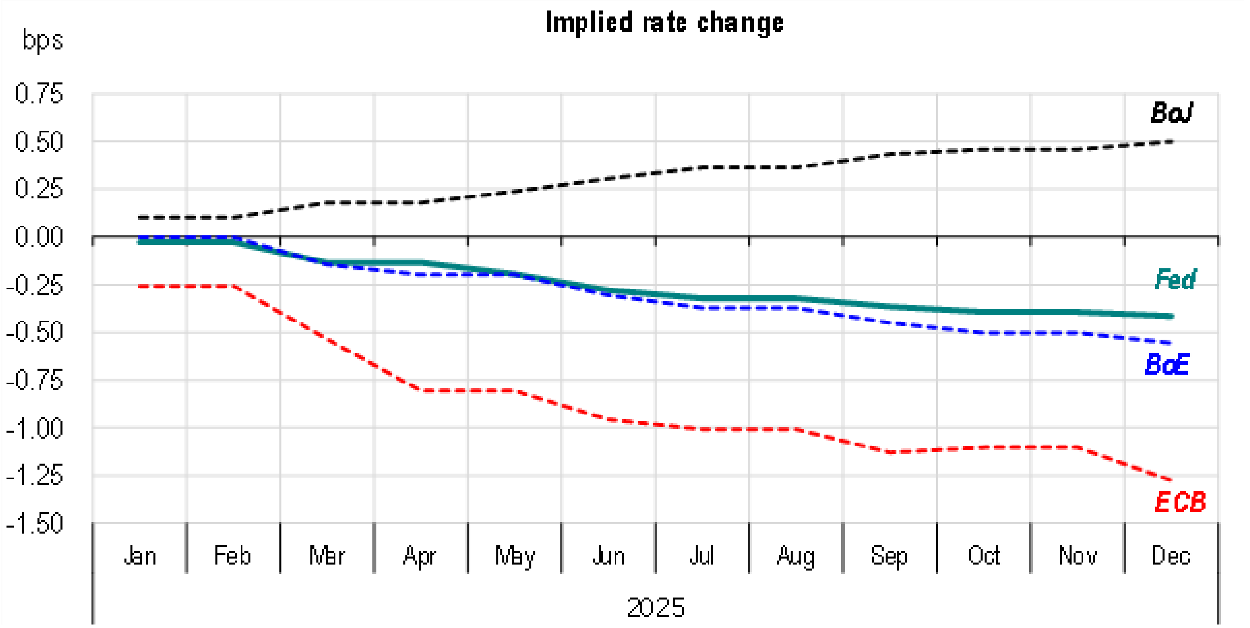
Additionally, concerns about the potential inflationary impact of President Trump's policies—such as tax cuts and tariff hikes—add to inflationary pressures. Meanwhile, as anticipated, the Fed reduced rates by another 25 basis points, bringing the target range to 4.25–4.50% at its 17-18 December 2024 meeting. However, **the central bank signaled that future cuts would be slower and more cautious in 2025.** The latest update to the Fed's dot plot (Fig. 2) now forecasts only two rate cuts (totaling 50 bps), down from the four cuts (totaling 100 bps) projected in September, as the disinflation process shows signs of stalling. Markets expect the Fed to reduce rates no more than twice this year, fewer cuts than those anticipated by the ECB and BoE (Fig. 3)

Figure 2: Fed's dot plot and US inflation



Source: Bloomberg, KBank

Figure 3: Expectations of major central banks' rate path in 2025



Source: Bloomberg, KBank as of January 2 2025.

Other major currencies weakened in 2024, except for the Thai baht, which remained relatively unchanged.

Other major currencies were generally weak in December and throughout 2024, mainly due to the strength of the US dollar. **The Korean won performed the worst in 2024, falling by -12.5% to close the year at 1,471.95 won per US dollar, its weakest level since 2009. This decline was driven by political uncertainty** following President Yoon Suk Yeol's decision to impose martial law. Additionally, the Jeju Airlines incident on December 29, 2024, added further pressure on the won.

The Japanese yen fell by nearly -5% in December, approaching 158 yen per US dollar, its weakest level since July. It weakened by over 10% in 2024, making it one of the weakest currencies of the year (Fig. 1). At the **Bank of Japan's meeting on December 19, 2024, the central bank kept its key rate at 0.25%, as expected. However, it signaled a dovish stance, indicating that it was in no hurry to hike rates.** The next rate increase could come in March or April rather than January, as the market had anticipated. The BoJ cited the need for further clarity on US policies under President Trump and expressed caution until there is more confidence in wage growth. Notably, the preliminary results of the Shunto wage negotiations are expected to be released in March.

The onshore Chinese yuan (CNY) weakened by -0.3% in December, falling above 7.29 yuan per US dollar, its weakest since November 2023. For the year, the yuan depreciated by -2.7%. Despite efforts by Chinese officials to stimulate the economy, **economic data remains fragile**. Retail sales in November were unexpectedly slow, reflecting weak consumer spending and low confidence. Furthermore, **the decision to adjust**

monetary policy to a "moderately loose" stance in the December meeting—marking the first such shift in 14 years—added further downward pressure on the yuan. However, **US trade policies continue to be the primary factor driving depreciation for the yuan, which is expected to remain a key issue in 2025.** The impact of US policies, especially during the first 100 days of President Trump's second term after his inauguration on January 20, 2025, remains to be seen.

European currencies also continued to depreciate in December and were significantly weaker in 2024, mainly due to a comparatively looser monetary policy than the US. The **euro fell by -1.4% in December and dropped more than -6% over the year. In addition to the looser monetary policy, the euro faced substantial pressure from political uncertainty** in major economies. For example, Germany is set to hold a snap election in February, and France recently replaced its prime minister amid a budget dispute. **US trade policies are also likely to exert further pressure on the European economic outlook.**

The Thai baht was one of the currencies that appreciated against the US dollar again, with a 1.2% gain in December, though it still traded above 34 baht per US dollar. The Thai Monetary Policy Committee (MPC) held the rate steady at 2.25%, as expected at the December 18, 2024 meeting but with a unanimous decision, which was the first for the year. Meanwhile, the MPC signaled that further rate cuts were unlikely in the near term as they wanted to preserve policy space to combat future uncertainties, namely US trade policies. Moreover, the baht gets support from the high tourism seasons and the government stimulus measure to enhance spending in early 2025.

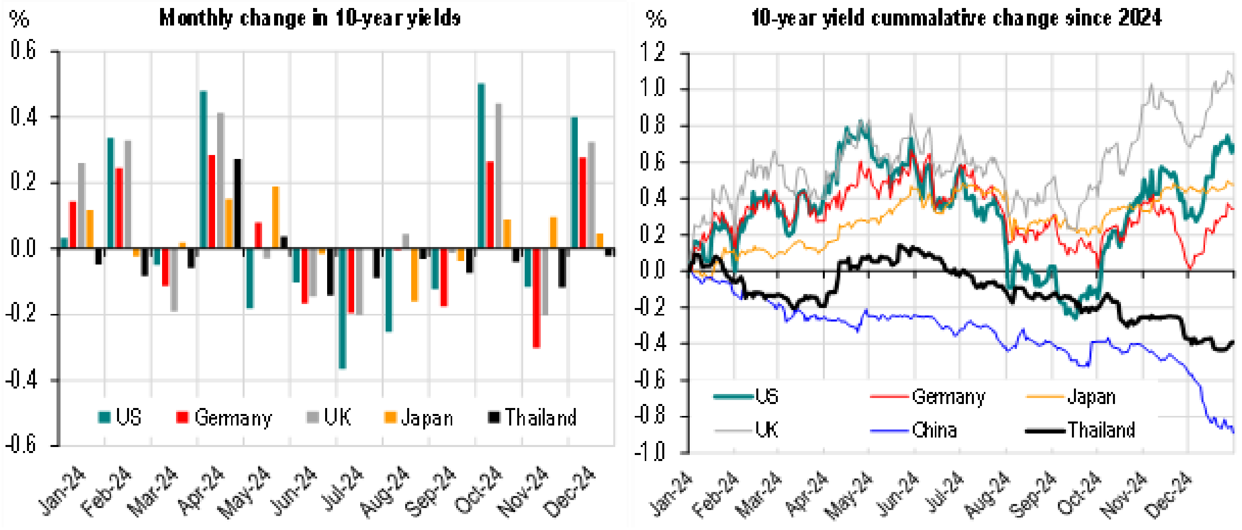
The Thai baht was one of the few currencies that appreciated against the US dollar in December, gaining 1.2%, though it still traded above 34 baht per US dollar. The Thai Monetary Policy Committee (MPC) kept the policy rate steady at 2.25% during its meeting on December 18, 2024, in a unanimous decision—the first such vote of the year. The MPC also signaled that further rate cuts were unlikely in the near term, as it aimed to preserve policy space to address future uncertainties, particularly US trade policies. Additionally, the baht received support from the high tourism season and government stimulus measures designed to boost spending in early 2025.

Overall, **the baht ended the year roughly unchanged, closing at 34.095 per US dollar, not far from our estimate of 34.50 baht per US dollar.** However, it was a highly volatile year, driven by domestic and international monetary policies and concerns over US trade policies under the Trump administration. **Capital Market Business (CMB) expect the baht to remain under considerable pressure** from these factors into 2025. Given the slow recovery of the Thai's current account surplus, **we anticipate the baht will depreciate to 35.50 per US dollar at the end of 2025.**

Bond markets

Government bond yields for major economies generally rose in December and closed the year at higher levels, particularly in the US, amid concerns over Trump's policies and expectations of slower Federal Reserve rate cuts, as the US economy remained resilient. Bond yields also rose in the UK and Europe, driven by political uncertainty. In Japan, the Bank of Japan's expectations of a potential rate hike pushed yields higher. **Meanwhile, in China, yields declined, with the 10-year bond reaching its historical low** as stimulus measures continued to roll out. These included an increase in bond issuance by both local and central governments and a shift in China's monetary policy stance to a "moderately loose" position for the first time in 14 years**. In Thailand, government bond yields also moved lower, reflecting expectations of further rate cuts from the Bank of Thailand** as the economic recovery remained sluggish.

Figure 4: Monthly change in 10-year government bond yields

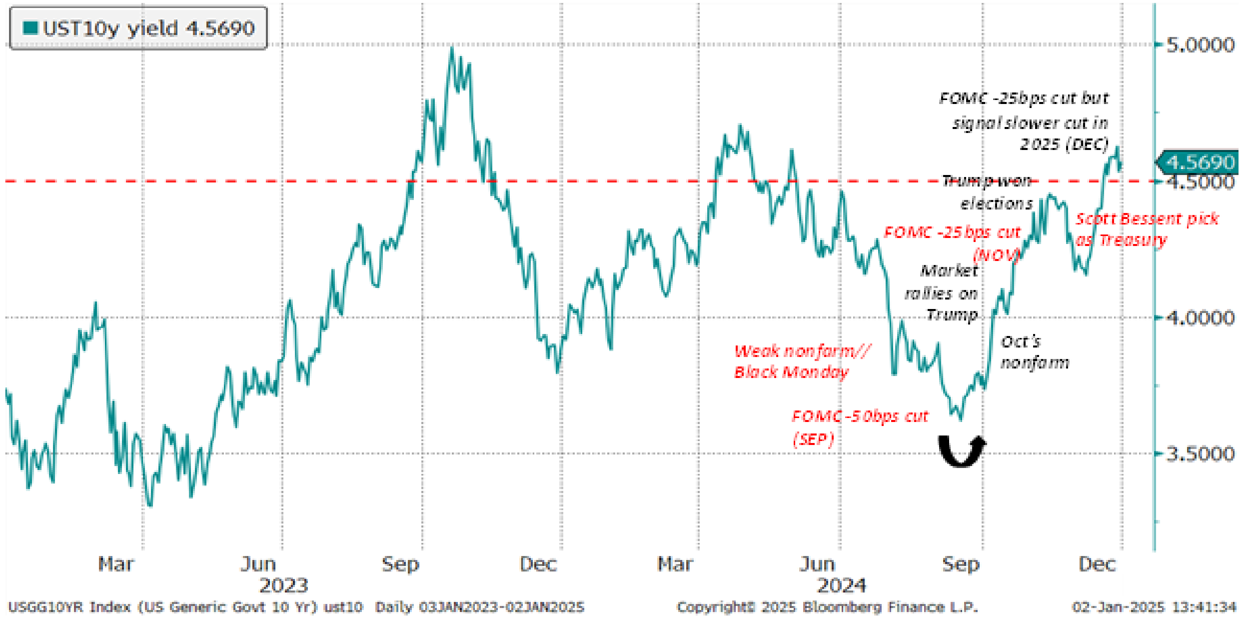


Source: Bloomberg, KBank

US 10-year Treasury yields surged by 40 basis points in December, closing the year at 4.57%. This outcome marked a total increase of 56 basis points in 2024, despite the Fed having reduced interest rates by

100 bps. The primary driver behind this rise was the resilience of US economic data, despite some weaknesses, while the disinflation process appeared to be slowing. As a result, Fed rate cuts are likely to occur gradually going forward. The December Fed meeting confirmed this outlook, with the central bank projecting only two rate cuts in 2025, while the money markets anticipate even fewer cuts.

Figure 5: 10-year US Treasury yield movements



Source: Bloomberg, KBank

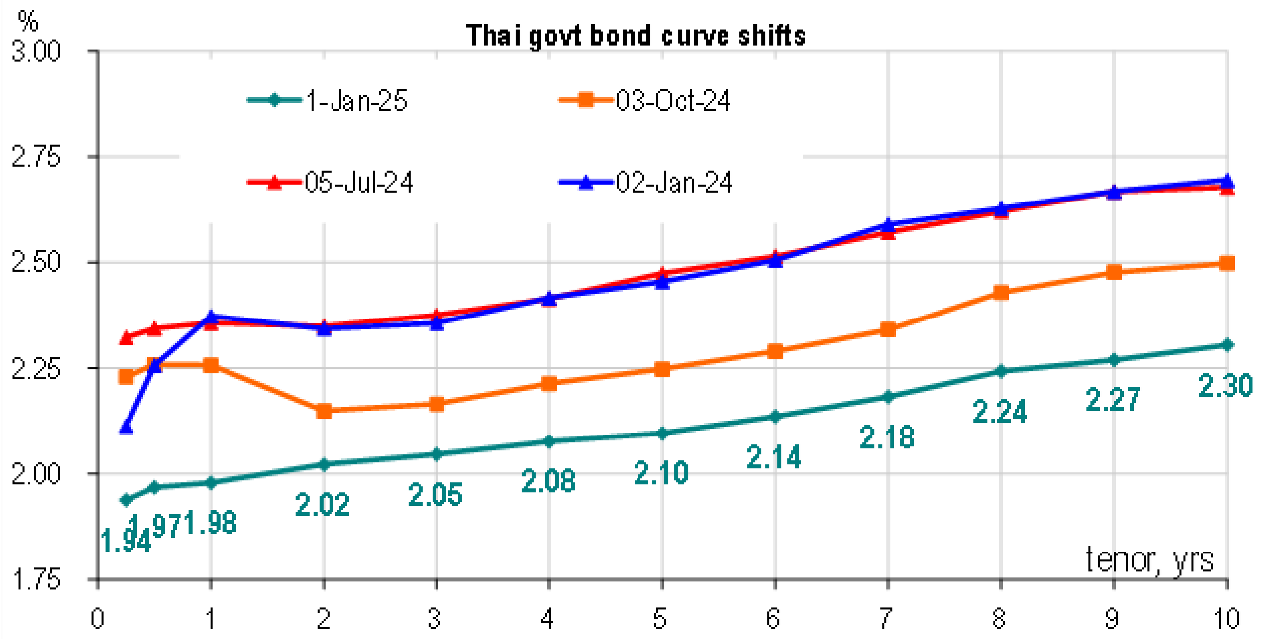
Additionally, 2024 saw the emergence of the so-called "Trump trade" as expectations grew that Trump's policies would strengthen the US economy and potentially drive higher inflation. These policies are also expected to significantly increase fiscal deficits, estimated at around USD 5.8 trillion. However, it remains uncertain how quickly or extensively Trump's policies will be implemented.

Capital Market Business (CMB) expects Treasury yields to move lower in 2025, with increased volatility, as the Fed continues its rate-cut cycle. We **estimate that the 2-year and 10-year Treasury yields will end 2025 at 3.75% and 4.25%, respectively.**

For Thai bonds, the 10-year yield closed slightly lower by around 2 bps in December. The yield declined in the first half of the month, reaching its lowest level since March 2022 at 2.27%, amid expectations that the Bank of Thailand (BoT) might lower rates at its December 19, 2024 meeting or at least signal a dovish stance. However, yield increased and ended the month at 2.30%, as the BoT's decision was less dovish than anticipated. The central bank unanimously voted to keep the rate steady at 2.25%, indicating no urgency for further rate cuts as it sought to preserve policy flexibility. As a result, markets now expect fewer than two rate cuts from the BoT, with the first cut potentially not occurring until the second half of the year. Meanwhile, the Thai government announced stimulus measures to boost spending in the new year.

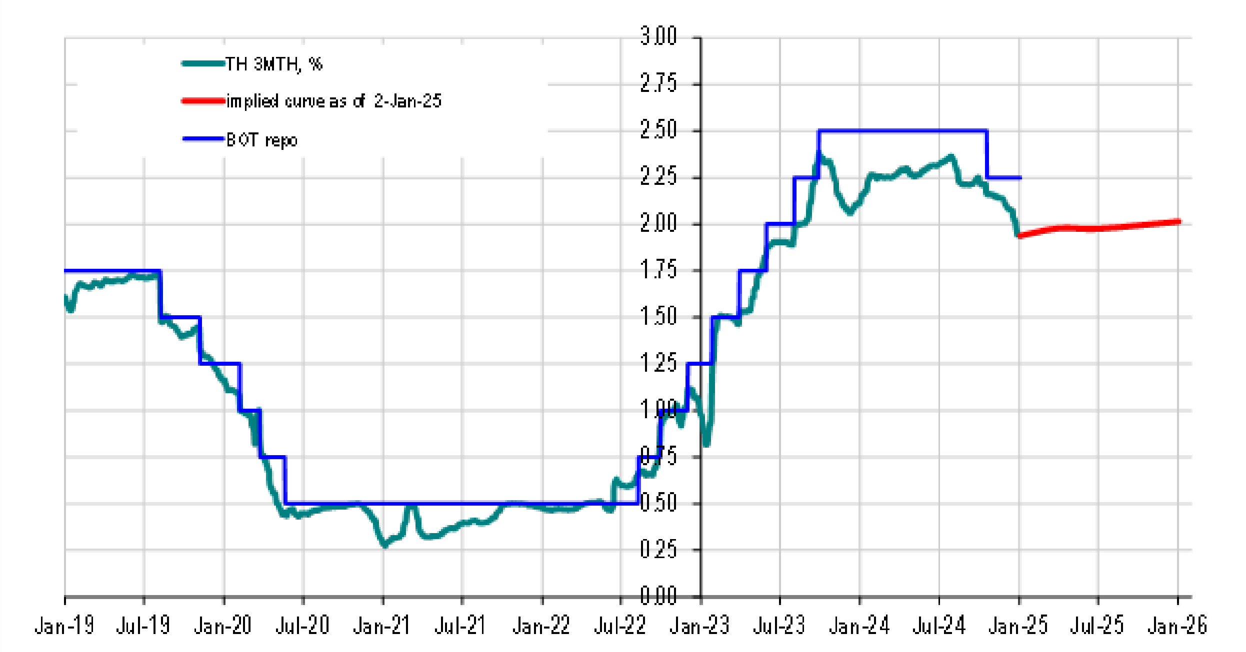
The Thai 10-year government bond yield fell by 39 bps in 2024. **Capital Market Business (CMB) expects yields to continue moving lower in 2025, with the 2-year bond yield projected to reach 1.75% and the 10-year bond yield expected to fall to 2.10% by the end of the year.**

Figure 6: Thai government bond yields movement



Source: Bloomberg, KBank

Figure 7: Implied BoT rate



Source: Bloomberg, KBank

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