MNI Asia Pac Weekly Macro Wrap

16 January 2026 – By Jon Cavenagh, Jaime Grant, Maxine Koster, Stephen Petrie & Gavin Stacey

JAPAN

- Japan's PPI was close to forecasts, while import prices continued to rise m/m and are no longer negative y/y. The weaker yen implies a further import rise in Jan, which is reportedly coming under increased focus from the BoJ. FX intervention rhetoric picked this week, but pull backs in USD/JPY remained modest.

AUSTRALIA

- The main data release this week was household spending, which for Nov rose more than forecast (above 6%y/y). This is at odds with softer consumer sentiment readings, but is unlikely to shift RBA thinking in the near term.

NEW ZEALAND

- New Zealand sentiment data continued to improve, along with other indicators like jobs filled. The backdrop suggests a firmer NZ growth backdrop for late 2025 and into early 2026. RBNZ thinking may not shift near term though, given the low base growth is coming from. Note next Friday delivers Q4 NZ CPI.

SHORT TERM RATES

- Interest-rate expectations across the $-bloc over the past week, looking out to June 2026, have been little changed, with the notable exception of the US, where expectations firmed by 8bps. Elsewhere, Canada pricing edged 3bps lower, while Australia and New Zealand were between flat to 2bps higher.

CHINA

- This week's trade data painted a resilient picture for China's external sector. Export growth surprised on the upside and we can see further yuan outperformance in basket terms before threatening the outlook.

SOUTH KOREA

- The BoK held rates steady this week, as widely expected. However, the central bank removed references to cutting rates, so it was viewed as a hawkish hold. Local rates pushed higher, but the won received little benefit, still weighed down by domestic outflows.

ASIA

- Malaysia Q4 GDP growth was stronger than expected, capping off a 2025 where growth was resilient compared to other parts of South East Asia. We also argued this week that there is scope for short end INDOGB yields to revert back to 2025 lows.

ASIA EQUITY FLOWS

- Tech related inflows into markets like South Korea and Taiwan are positive 2026 to date, but lag the gains seen in local bourses.

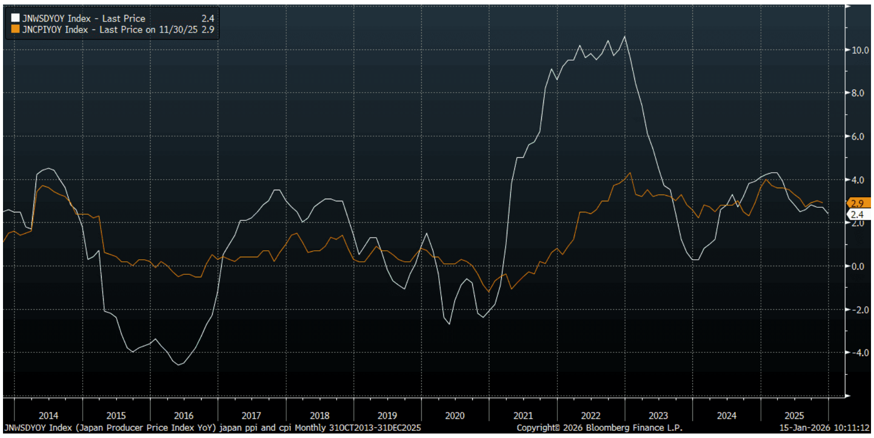
JAPAN

JAPAN DATA: PPI Y/Y Momentum Slows, But Imported Y/Y Deflation Ends

Japan's Dec PPI was close to market forecasts, edging up 0.1% m/m (against a 0.2% forecast and 0.3% prior outcome). In y/y terms we rose 2.4%, in line with forecasts and against a 2.7% prior outcome. The chart below plots the PPI y/y, against headline CPI y/y. Today's update for the PPI suggests some marginally loss of headline CPI pressures, but it is unlikely to materially impact BoJ thinking around longer term price trends. The detail showed manufacturing flat at 0.0%, ending a steady run of modest m/m gains. We saw some volatility in the commodity space, - petrol, coal down 5.0%m/m, but metals rose 5.2%, which maintaining recent trends in these respective spaces.

- On the trade price front, import prices were up 1.1%m/m, after a 1.5% gain prior. This brings import prices to flat in y/y terms. We were -10.6%y/y on this metric in July last year. Weaker yen trends and its impact on imported inflation will remain a BoJ watch point.

Fig 1: Japan PPI Y/Y & Headline CPI Y/Y



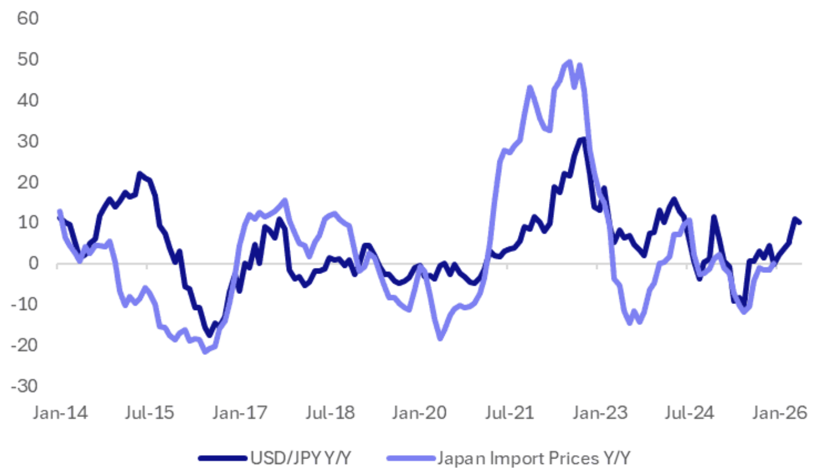
Source: Bloomberg Finance L.P./MNI

JAPAN DATA: Import Prices Up For 6th Straight Month, Consistent With Weaker Yen

Japan import prices rose 1.1% in Dec, marking the sixth straight rise monthly rise. This matches the longest run of monthly import price increases going back to mid 2022. This saw y/y deflation from import prices end, returning to a flat result. We were at -10.6%y/y in July last year. Given further yen weakness since the start of the year, we may see a further rise in import prices in Jan.

- The chart below plots USD/JPY y/y shifts against import prices y/y. We extend the USD/JPY y/y to the middle of this year, assuming current spot levels around 158.50 hold. By April this year, the y/y gain is back around +10%, as base effects from 2025 become less favourable. Yen weakness and its impact on the BoJ outlook (in terms of partly driving market rate expectations) is likely to remain a feature in 2025.

Fig 1: USD/JPY Y/Y (Extended Assuming Current Levels Hold) & Import Prices Y/Y



Source: Bloomberg Finance L.P./MNI

JAPAN DATA: Domestic Outflows Modest So Far in 2026, Offshore Inflows Continue:

Local investors maintained a relatively modest start to 2026 in terms of offshore asset purchases. There was a modest pick up in buying of overseas bonds, but this followed some net selling in the prior two weeks. Cumulative flows in recent months remain negative. Global bond returns have been fairly flat since the start of the year, continuing a trend seen for much of Q4 last year. Local investors also purchased offshore stocks, but in very modest size. The bias in recent months for flows in this space remains negative.

* In contrast, overseas interest in Japan assets was notably stronger (see the table below). Offshore interest in local equities was a key feature of the 2025 flow backdrop (particularly since April of last year) and solid Japan equity gains since the start of the year is likely fuelling on-going interest.
* Net inflows have also been evident into Japan debt. Since Oct last year we have seen cumulative net inflows of around 5trln. Is the yield rise in Japan attracting greater offshore inflows into this space?

Table 1: Japan Weekly Offshore Investment Flows

Billion Yen	Week ending Jan 9	Prior Week
Foreign Buying Japan Stocks	1141.4	124.9
Foreign Buying Japan Bonds	1007.8	273.5
Japan Buying Foreign Bonds	101.1	-223.6
Japan Buying Foreign Stocks	27.5	236.6

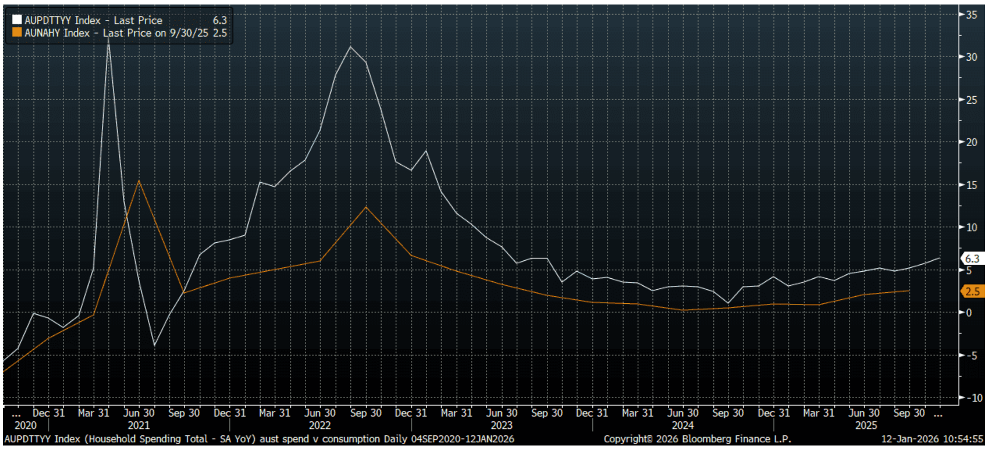
Source: Bloomberg Finance L.P./MNI

AUSTRALIA: Nov Spending Above Forecasts, Reflecting Broad Based Strength

Earlier data showed stronger than expected Nov household spending figures. This series has replaced the retail sales print as the main monthly indicator for household spending trends in Australia. We were up 1.0%m/m (0.6% forecast), while the Oct outcome is now +1.4% (versus the initial 1.3% reported). In y/y terms, spending rose 6.3% (versus 5.5% forecast and 5.7% prior).The spending data may add a little to the RBA hike case for 2026, although inflation data is likely to remain the key swing factor. Other data for ANZ job ads showed a -0.5%m/m for Dec, after a revised -1.5% fall in Oct.

- The chart below shows spending y/y, now back end Q3 levels from 2023, versus the national accounts household consumption measure in y/y terms as well. The continued recovery in household spending points to improved Q4 consumption momentum, and a solid launch point for 2026.
- The ABS noted fairly broad based gains for spending: "'Services spending rose by 1.2 per cent, driven by major events, including concerts and sporting fixtures. These events are linked to higher spending on catering, transport, and recreation and cultural activities. 'Growth in goods spending, which lifted 0.9 per cent, was driven by Black Friday sales. Clothing, footwear, furnishings, and electronics seeing the biggest gains as consumers took advantage of widespread discounts.'"

Fig 1: Australia Household Spending & Consumption Y/Y



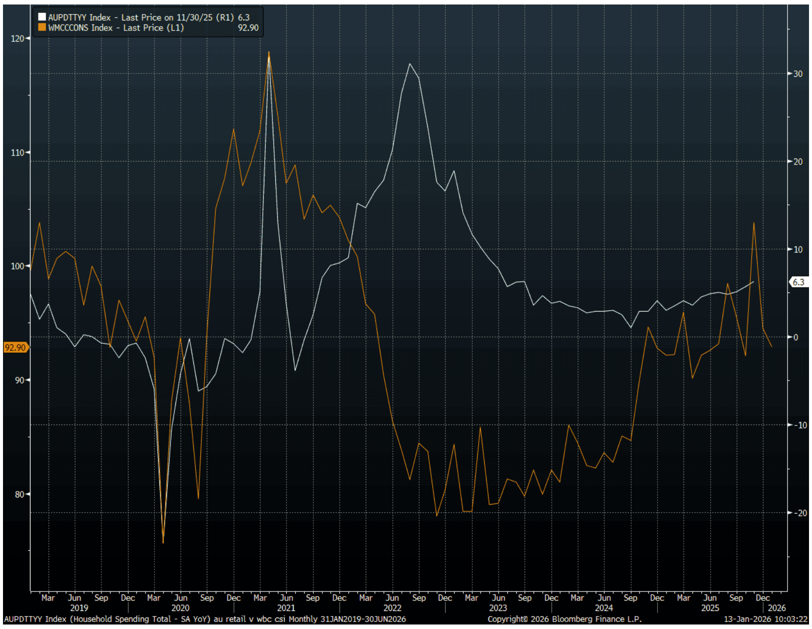
Source: Bloomberg Finance L.P./MNI

AUSTRALIA DATA: Consumer Sentiment Weighed By Rate Outlook, RBA To Watch Spending

The Westpac consumer sentiment index slipped further in Jan to 1.7% (after a 9.0% fall in Dec last year). This puts the index back to 92.9, roughly where we were in Oct last year. Diminished rate cut prospects appear to be weighing on sentiment. Westpac notes: "The main catalyst continues to be a sharp turn in interest rate expectations. Nearly two thirds of consumers with a view now expect mortgage rates to move higher over the next 12 months, more than double the share back in September." Today's sentiment update comes after a yesterday's stronger than expected Nov household spend update. The chart below plots the headline sentiment index (orange line) versus household spending y/y, with recent gyrations in sentiment not impacting spending terms yet. From an RBA standpoint, its likely to be a watch point, to see if weaker sentiment leads to lower spending outcomes. Hence likely no change to the near term outlook.

- Westpac also noted: "Near-term expectations for family finances and the economy recorded the sharpest deteriorations in January, declining 4.5% and 6.5% respectively. This was partially offset by a small improvement in assessments of family finances vs a year ago (+2.3%) and slight gains for the 'economic outlook, next 5 years' and 'time to buy a major household item' sub-indexes (+0.9% and +0.2% respectively)."

Fig 1: Westpac Consumer Sentiment & Household Spending Y/Y



Source: Westpac/Bloomberg Finance L.P./MNI

AUSTRALIA DATA: Job Vacancies Ease, Trend Mostly Sideways, Jobs Data Next Thurs

Earlier data showed job vacancies down -0.2%q/q (ending in Nov). This follows a -2.7% decline in the prior quarter. Job vacancies remain around 30% off 2022 highs, but the trend though was only down modestly, to end Nov just under 327k. To Nov we were down 5.2%y/y. The q/q trend is relatively steady, not too far from flat for 2025. The data is unlikely to shift RBA thinking around labour market trends. Note we get Dec jobs data next Thursday (22nd of Jan).

- In terms of the break down between the private sector and public sector, on the private side job vacancies fell by -0.5%q/q, after a -3.3% fall prior. The trend here is relatively flat though.
- The public sector rose 1.8%q/q, keeping with the modestly positive trend for 2025.

NEW ZEALAND

NEW ZEALAND: Food Prices Down Again, Gains Elsewhere Led By Utilities & Travel:

New Zealand Dec food prices remained soft. We fell 0.3%m/m, after a -0.4% decline in Nov. This brings the y/y pace back to 4%, off 2025 highs of 5%. Other detail in the Dec price update generally showed positive m/m gains, particularly for air transport. Today's Dec print comes ahead of next Friday's Q4 CPI print. There is no consensus for this print yet, but the RBNZ had penciled in +0.2%q/q (after a 1.0% Q3 gain), which would leave the y/y outcome at 2.7% (prior 3.0%). There is also likely to be focus on non-tradables, which rose 1.1% in Q3. Given signs of a firmer growth backdrop in Q4 last year this segment will be watched for any early domestic inflation pressures.

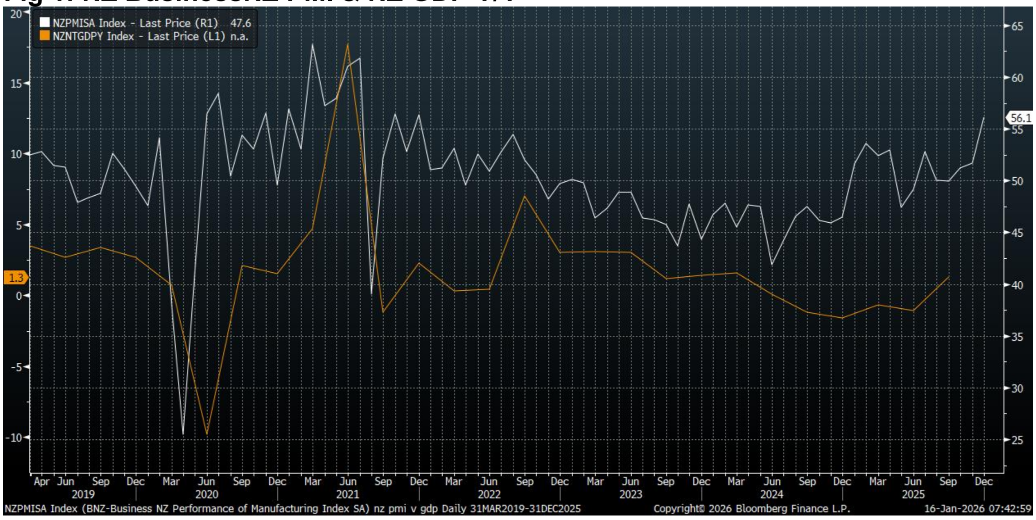
* In terms of the detail for Dec prices, rents edged up 0.1%, while and electricity and gas posted further solid m/m rises (+1.5% and 1.9% respectively). Petrol at +0.1% slowed compared to prior months, while domestic and international air travel surged (+15.8 and 32.9% respectively). Accommodation services rose 0.7%m/m (versus +1.1% in Nov).
* Y/Y trends were mixed, strongest for utilities, but accommodation services is now +12.1%y/y.

NEW ZEALAND PMI Surges, Led By New Orders, Points To Improved Growth Outlook:

The New Zealand BusinessNZ Manufacturing PMI surged to 56.1 in Dec, up from a revised 51.7 in Nov. This is the highest print since late 2021, see the chart below where we plot the PMI (white line) versus NZ GDP y/y. Sharp spikes and more elevated readings in the PMI often leads better y/y GDP momentum. The rise in the PMI is consistent with other sentiment readings, most notably the ANZ confidence and activity prints from late 2025. This points to improving NZ economic momentum through the tail end of 2025 and into 2026. It's likely to reinforce an on hold RBNZ backdrop in the near term. Market pricing has an RBNZ hike priced more towards year end. Any bring forward of this view, given growth is coming from a low base, may rely on stronger inflation (note get Q4 NZ inflation data next Friday).

* In terms of the detail on the PMI, all sub components rose, with the standout being new orders up to 59.8, from 52.2 prior.
* Via BBG: "PMI is positive for Q4 GDP calculations and points to good momentum heading into the New Year. At face value, it suggests upside risk to the positive view we already have for manufacturing and near-term GDP growth forecasts": BNZ senior economist Doug Steel".

Fig 1: NZ BusinessNZ PMI & NZ GDP Y/Y



Source: Bloomberg Finance L.P./MNI

NEW ZEALAND: NZIER Survey Shows Surge In Business Conditions, Inflation Steady

The Q4 NZIER (New Zealand Institute of Economic Research) Quarterly Survey of Business Opinion (QSBO) printed a little while ago and showed a strong improvement versus the Q3 result. This should increase confidence in the economic recovery taking hold in 2026, and adds to the case for a steady RBNZ hand in the near term (at the margin).

- Via NZIER, "A net 39 percent of firms expect better general economic conditions over the coming months on a seasonally adjusted basis. This was a substantial increase from the net 17 percent expecting an improved general economic outlook in the September quarter, and business confidence is at the highest level since March 2014." (see this link for more details). This follows the generally strong mood for business and consumer confidence at the end of 2025. The ANZ business confidence and activity outlook measures at fresh multi year highs.
- Other key snippets NZIER noted, "A net 5 percent of firms increased staff numbers in the December quarter, and a net 22 percent are planning to hire in the next quarter." along with: "A net 5 percent of firms increased staff numbers in the December quarter, and a net 22 percent are planning to hire in the next quarter."

- On inflation: "Cost and pricing indicators suggest inflation pressures in the New Zealand economy remain broadly contained in the December quarter."

NEW ZEALAND: Filled Jobs Best M/M Rise Since Late 2023, But Still Down Y/Y

New Zealand filled jobs rose 0.3%m/m in Nov last year after a revised -0.1% outcome for Oct (originally reported as flat). Nov's rise was the best m/m gain since Oct 2023. This signifies some progress in better jobs growth momentum, although it follows a long period of softer momentum through much of 2024 and 2025. In y/y terns, jobs filled were still down 0.4%. The data, along with a rise in building permits, should add to the sense of improved economic momentum for NZ in 2026, suggesting an early wait and see approach for the RBNZ. Note we get Q4 2025 inflation next week on Friday.

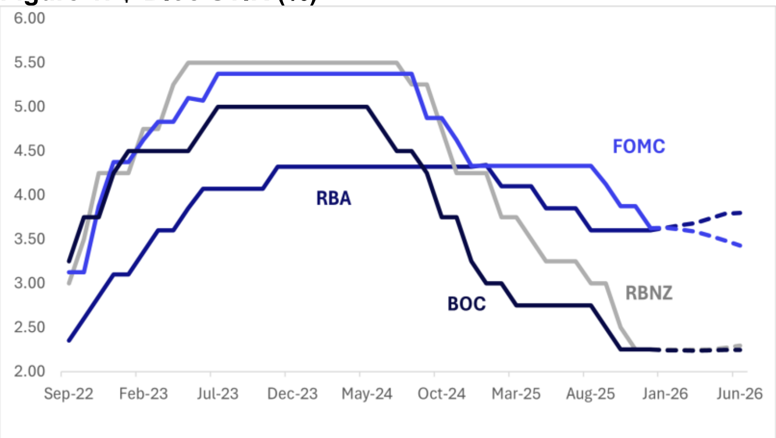
- By industry, Stats NZ noted the following outcomes in y/y terms - "construction – down 3.6 percent, health care and social assistance – up 1.8 percent, professional, scientific, and technical services – down 2.2 percent, manufacturing – down 1.6 percent, public administration and safety – up 2.1 percent."
- Hence a lot of the job creation is in the services side rather than goods producing/manufacturing.
- Earlier, Westpac noted: "Employment confidence rose by 3.9 points to 93.8 in the December quarter. Jobs are still seen as hard to come by, but current readings are consistent with a peak in the unemployment rate."
- Other data showed a 2.8%m/m in building permits for Nov. This comes after a revised 0.7%m/m fall for Oct. We up 7% in y/y terms, but in levels terms we are still comfortably under 2022 highs.

SHORT-TERM RATES $-Bloc Pricing Little Changed Over Past Week, Except For The US:

Interest-rate expectations across the $-bloc over the past week, looking out to June 2026, have been little changed, with the notable exception of the US, where expectations firmed by 8bps. Elsewhere, Canada pricing edged 3bps lower, while Australia and New Zealand were between flat to 2bps higher.

* The key data releases across the $-bloc over the past week were from the US, though interpretation proved challenging in both cases. December nonfarm payrolls growth was softer than expected at 50k (consensus 70k), with an even larger downside surprise in private payrolls at 37k (consensus 75k). Offsetting this, the unemployment rate edged down to 4.4%, while average weekly earnings rose more than expected to 3.8% y/y.
* Meanwhile, December core CPI printed below expectations. However, the presence of notable anomalies across multiple categories-both at the aggregate level and within components-has made the underlying signal difficult to interpret, suggesting the report should be treated with caution.
* The next major regional policy events are the FOMC and BoC meetings on 28 January. Markets assign a roughly 5% probability of a BoC cut, while US pricing implies a 14% chance of a 25bp Fed cut.
* Looking ahead to June 2026, current market-implied policy rates expected are as follows: US (FOMC): 3.35%, -28bps; Canada (BOC): 2.28%, +3bp; Australia (RBA): 3.80%, +20bps; and New Zealand (RBNZ): 2.30%, +4bps.

Figure 1: $-Bloc STIR (%)



Source: Bloomberg Finance LP / MNI

CHINA

CHINA DATA: December Exports Strong, Monetary Policy Changes Not Rushed :

* China's December trade data in USD out today was very strong, with both exports and imports topping expectations. At 6.6% exports were up from November's 5.9%, and sees a 1-year average at 5.4%. Exports in CNY were down modestly from November at 5.2% YoY

* Imports had stalled in November with the December rebound very strong, up +5.7% YoY in USD and +4.4% in CNY yet with some big declines at the height of the US tariff threat, sees a 1-year average of zero.

* US exports from China have continued to improve having suffered earlier in the year, whilst diversification is evident with strong numbers to the EU and broader ASEAN.

* The export resilience supports the idea that any anticipated monetary policy changes is not hurried at this stage.

* According to recent onshore Chinese media reports and official statements, China is expected to maintain a "moderately loose" monetary policy over the next three months (Q1 2026), with a growing likelihood of interest rate or reserve requirement ratio (RRR) cuts to support domestic demand and economic stability.

* Analysts cited in Chinese media anticipate that Q1 2026 will be the primary window for RRR and policy rate cuts, with some suggesting RRR cuts are preferred to manage bank profitability while still injecting liquidity, whilst the focus on improving the monetary policy transmission is preferred over further cuts.

CNY: Scope For More Outperformance Before It Threatens Export Outlook

Export growth was better than forecast at +6.6%y/y, remaining positive for much of 2025 and a bright spot in terms of broader growth drivers. More broadly, the trade outlook for 2026 faces uncertainty in terms of broader economic relations, along with external demand. The yuan has been outperforming against its trading peer in basket terms. Most prominent in recent dealings has been the break higher in CNY/JPY to above 22.80 (fresh highs sicne the 1990s). Still, current CNY CFETS basket tracker levels, 98.76, are sub Jan 2025 levels (100.7). So we arguably need to see more sustained CNY outperformance before it threatens the export outlook.

- The chart below plots the CNY CFETS basket tracker in y/y terms, against China export growth. There has been period over the past decade where the basket gains have coincided with periods of weaker or declining export growth momentum. However, these are often at y/y rates notably higher than those currently prevailing.
- If current basket levels hold then we will be back in positive y/y territory by April. The basket is around 3.9% higher than July lows from last year as well.
- Still, it is difficult to make the case that CNY outperformance will derail export growth currently. On top of this, arguments may also continue to be made of the yuan's cheapness relative to the strength of its external balances.

Fig 1: CNY CFETS Basket Tracker Y/Y & China Export Growth

Source: Bloomberg Finance L.P./MNI

SOUTH KOREA

SOUTH KOREA Unemployment Hits Highest Since 2021:

* Unemployment in the December 2025 release was the highest since March 2021. Key industries like the construction and manufacturing sectors, alongside a persistent job market mismatch, particularly for young, highly educated individuals saw December unemployment hit 4.0% (from 2.7% prior).

* The construction industry has been in a prolonged recession, with a continuous decline in employment insurance enrollments for 29 consecutive months through December 2025. The focus on cooling soaring property market prices (particularly in Seoul) by authorities isn't helping sentiment.

* Manufacturing and wholesale and retail industries have weakened considerably.

* There is a significant struggle for Koreans in their 20s and 30s to find stable jobs, a situation exacerbated by the growing use of AI in the workplace and a mismatch between job seekers' skills/expectations and available positions. The number of "inactive" individuals (those not working or actively seeking work) in their 30s reached a record high. The total amount of job-seeking benefits paid out in 2025 reached a historic peak, surpassing even pandemic levels, which reflects the challenging job market conditions.

* This won't alter the expected hold by the BOK this week, though if prolonged could see swaps market revisit rate cut pricing that has recently been priced out.

SOUTH KOREA: BOK: Extended Hold May Continue, Reference To Cut Rates Dropped

The BoK left rates on hold as widely expected, at 2.50%. Notably the central bank dropped a reference to possible rate cuts. This may leave the market speculating around when a hike could materialize, although a near term shift is unlikely, with inflation relatively steady at this stage and domestic growth still recovering from a low base. We await to see what BoK Governor Rhee states in the press conference.

- The policy statement concluded with: "Therefore, the Board will make its policy decisions, amid supporting a recovery in economic growth, while closely monitoring changes in domestic and external policy conditions and the resulting impact on inflation dynamics and financial stability developments." Compared with the Nov 2025 statement of: "Therefore, while leaving room for potential rate cuts, the Board will decide whether and when to implement any further Base Rate cuts while closely monitoring changes in domestic and external policy conditions and examining the resulting impact on economic growth, inflation, and financial stability."

- Removing at least the near term consideration of further rate cuts with other parts of the BoK statement. It sees growth just under 2% but with upside risks from the external side, noting less tariff related impact than feared: "The growth rate is expected to be broadly consistent with the November forecast of 1.8% for this year. However, upside risks are judged to have increased somewhat, reflecting the accelerating upward trend in the semiconductor sector and the stronger than expected growth in major economies."
- On inflation, both headline and core are expected to be around 2%: "Both headline and core inflation for this year are expected to be generally consistent with the November forecast of 2.1% and 2.0%, respectively. The future path of inflation is likely to be affected by movements in the exchange rate and global oil prices, by economic conditions at home and abroad, and by the government's price stabilization measures." The weaker FX rate was cited as a source of upside inflation risk.
- The exchange rate also features from a financial stability standpoint, along with real estate: "Regarding financial stability, risks still remain related to housing prices in Seoul and its surrounding areas, to household debt, and to the heightened exchange rate volatility."

SOUTH KOREA: Rates Surge, BOK Drops Rate Cut Reference, Late 2025 Highs Intact

Local rates have reacted to the on hold outcome, which also dropped reference to rate cuts. Governor Rhee noted in press conference that 5 board members saw steady rates in the next 3 months, while one stated the door should be left open for a cut. Still, the core board view looks to be a steady backdrop in the policy rate in the near term. The low in 3yr bonds was 105.05, and we sit a touch higher currently. It feels like upside around the 20-day EMA at 105.37 should be an upside cap for the 3yr. Downside focus should be on the low 105/high 104 region, which marked late 2025 lows.

- The 1y1y KRW NDIRS rate has surged, now near 3.24%, up around 10bps so far today. We aren't too far off Dec highs of 3.285%. A clean break higher from here would bring the 3.50% region into view.
- Focus will likely be upcoming data outcomes, with upside growth surprises (particularly on domestic indicators) and/or inflation outcomes to impact market thinking. We may not be able to break above 2025 highs just off today's BoK outcome alone.
- Per MIPR on BBG, market pricing is flat for the BOK out to 3 months, rises to 2.61% for 6 months, the 2.83% 1yr ahead (against current policy rate of 2.50%).

Fig 1: South Korea NDIRS 1y1y

Source: Bloomberg Finance L.P./MNI

KRW: Hawkish BoK Doesn't Aid Won, Rhee Flags Short & Long Term Policy Responses

The won has received no benefit from the more hawkish BoK stance, rally in rates. The pair was last 1471/72, up around 0.50%. We are clawing back yesterday's dip, which came post US Tsy Bessent's comments on the won (noting won shift from fundamentals and excessive vol). Highs yesterday were just short of 1480, which looks to remain a near term resistance point. Broader uptrend conditions remain in USD/KRW.

- BoK Governor Rhee has stated today that FX was a major factor in today's decision, while stating that temporary and long term measures were needed to address FX volatility.
- He added that, retail outflows to overseas stocks, a key source of won weakness, had picked up again. Rhee stated the authorities won't be agreeing to $20bn a year in outflows to the US if FX markets aren't stable and added an announcement from the government on this and the US trade deal would come later today.
- Rhee stated that hikes of 200-300bps would be needed from a policy standpoint to stabilize FX markets.

ASIA

INDONESIA: Despite Fiscal Concerns, Still Scope For Lower Front End Yields

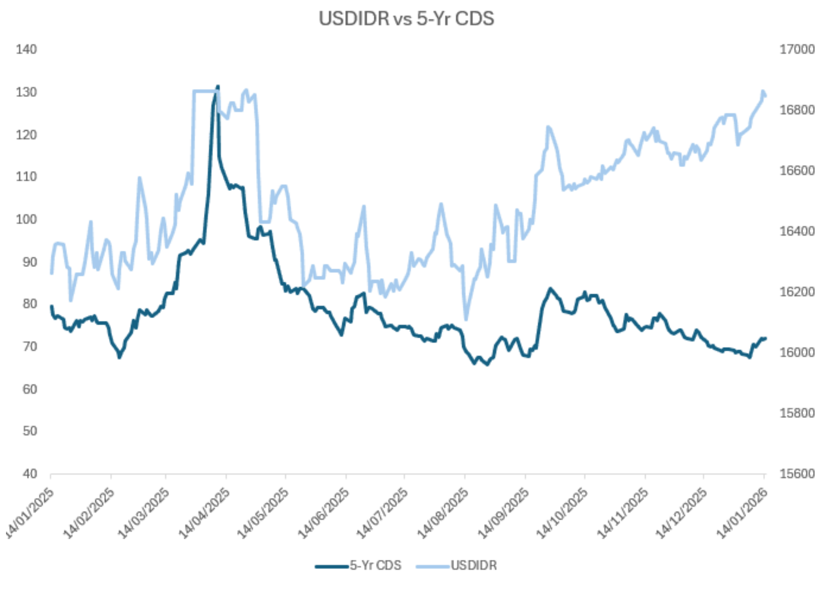
- Despite the move higher since the start of the year for INDOGB yields, a case for lower yields early in 2026 can still be made.
- Currency and fiscal concerns have pushed the 2-Yr up to 5.12% (November lows 4.65%, see the chart below) yet a non consensus viewpoint via on the front end could be considered.
- Some recent third party research reports suggest a growing consensus for higher yields in INDOGBs. There is however a risk scenario for lower (predicated on a view BI will support the rupiah and that the Fed cuts more than forecast this year).
- There are expectations for modest rate reductions to stimulate credit growth and domestic demand, but currently the rupiah is the BI focus.
- When the Rupiah depreciates against the US dollar, investors typically demand higher yields for the increased currency risk, yet this relationship has broken down in the current cycle.
- Whilst the BI is for now defending IDR spot, the risks are for a new FED chairman cutting rates more aggressively.
- A more dovish Fed could lead to the return of the Foreign Investor. 2025 saw foreign investment in INDOGB fall through Q3 and into Q4 on political / fiscal concerns only to turn net positive in December. The continuation of foreign inflows into 2026 depends on a weaker US dollar, lower US Treasury yields, and a clear narrative on Indonesia's long-term fiscal discipline currently in question.
- Some or all of these could help see yields retrace the November lows.

Fig 1: INDOGB 2yr Versus Key Technicals

Source: Bloomberg Finance L.P/MNI

INDONESIA: USD/IDR Nears 16900, CDS Eyed For Further Signs Of Stress/Concern

- USDIDR is eyeing the 2025 April peak, currently near 16870 , although BI headlines have just crossed that the central bank will remain in the market to ensure the currency moves in line with fundamentals. USD/IDR has trended higher since the start of the year, with market observers pointing to concerns as to the fiscal deficit (recent budget only just below) and the potential for a revision higher of the cap.
- Current projections are for the fiscal deficit to remain at 2.92% (from last year's 2.7% of GDP). The Finance Minister Purbaya Yudhi Sadewa recently pledged that the budget deficit will remain below the 3% legal ceiling, even as it reached a 20-year high (outside the pandemic) of 2.92% of GDP in 2025.
- However, speculation has been growing in recent weeks that discussions are ongoing around the cap, with suggestions a vote to raise the cap is possible.
- Despite the growth outlook for 2026 remaining robust at 5.00% growth, the rupiah has weakened consistently in recent months.
- If this is attributed to genuine investor concerns as to the fiscal situation, it could see CDS playing catch up in the coming months., but this could also act as further negative feedback loop for the FX.
- At the height of the US tariff risks in April 2025, Indonesia 5-Yr CDS peaked at +131bps, with USDIDR hitting 16,891. Both CDS and the currency later retreated into August as the trade war risks receded post the agreement with the US.
- Later that year political unrest aimed at government policy heightened investor concerns with the currency weakening again, but the CDS move higher was modest.



source: Bloomberg Finance LP / MNI

MALAYSIA: Q4 Growth Above Forecasts, Aiding Asset Outperformance, BNM Next Week

Malaysian Q4 GDP was stronger than forecast, per the advance estimate. We rose 5.7%y/y, against a 5.4% forecast and 5.2% outcome in Q3. Resilient growth momentum has been evident throughout 2025. In terms of the breakdown, construction remained the standout at +11.9%y/y, but services and manufacturing all saw firmer y/y paces relative to Q3 (only mining slowed). Via BBG: "For the full year, the economy expanded 4.9%, according to the estimates, above the government’s forecast of 4% to 4.8% growth. "

- The market consensus for 2026 growth is a slowdown to 4.4% for the year. This would still be a resilient outcome for the region and is likely supporting local asset sentiment to a degree. The local equity index is through 1700, fresh highs back to 2019, while MYR remains an outperformer within the EM Asia FX space. USD/MYR was last under 4.0600, close to recent lows. In the past 3 months, MYR is up over 4% versus the USD.

- Next week we have CPI data Tuesday, along with trade figures, then the BNM decision on Thursday. No change is expected form the consensus (current policy rate is 2.75%).

ASIA EQUITY FLOWS: Limited Offshore Inflows In Tech Plays So Far, Indian Outflows:

2026 to date net inflows are positive for both South Korea and Taiwan but only marginally. Yesterday we saw solid net offshore buying of South Korean stocks, but the past 5-trading days has still seen firm net outflows. The Kospi remains on the front foot and tracking at fresh record highs. Outside of broader tech related trends, some focus will rest on potential efforts to encourage local retail investors to invest more into local stocks (as a way to stem won FX weakness), while BoK Governor Rhee stated yesterday the National Pension Service needs to review its local stock allocation (also viewed as part of the effort to help the weak won). If these moves gain traction the Kospi could see further support, which may attract offshore inflows.

* For Taiwan, we saw modest net outflows yesterday, but prior sessions saw decent net inflows. Yesterday's strong Q4 TSMC results, including the strong outlook for 2026 capex and sales, bodes well for the broader AI/chip backdrop. The US-Taiwan trade deal is another potential positive, although arguably didn't deliver high level surprises, as Taiwan obtained a 15% tariff rate through investment pledges to the US (similar to what South Korea and Japan negotiated).
* Elsewhere, Indian outflows have been a feature so far in 2026. This matches with a relatively soft start for Indian aggregate equity indices since the start of the year. Uncertainty around US-India trade continues.
* In South East Asia, Indonesia and Malaysia remain the positive standouts.

Table 1: Asian Markets Net Equity Flows

	Yesterday	Past 5 Trading Days	2026 To Date
South Korea (USDmn)	449	-1761	429
Taiwan (USDmn)	-57	716	666
India (USDmn)*	-48	-1418	-1605
Indonesia (USDmn)	56	264	434
Thailand (USDmn)	84	81	-19
Malaysia (USDmn)	81	195	20
Philippines (USDmn)	22	50	88
Total (USDmn)	587	-1874	13

* Data Up To Jan 13

Source: Bloomberg Finance L.P./MNI