



全创资本

OMNI CAPITAL PARTNERS

# Investment Newsletter

December 2023

“ Omni Alpha: ”  
Profit From Disruptions

# Why Omni Investment Services



“

By entrusting us with your investments via this **discretionary mandate offering**, you can relieve yourself from the day-to-day burden of managing your assets, allowing you to have more time for other meaningful pursuits.

”

“

Your investments will be **expertly and professionally managed** according to your specific investment goals and risk tolerance, whether investing in private, public or both. Besides, your investment will be supported with timely updates and meaningful reporting to make sure you are well informed.

”

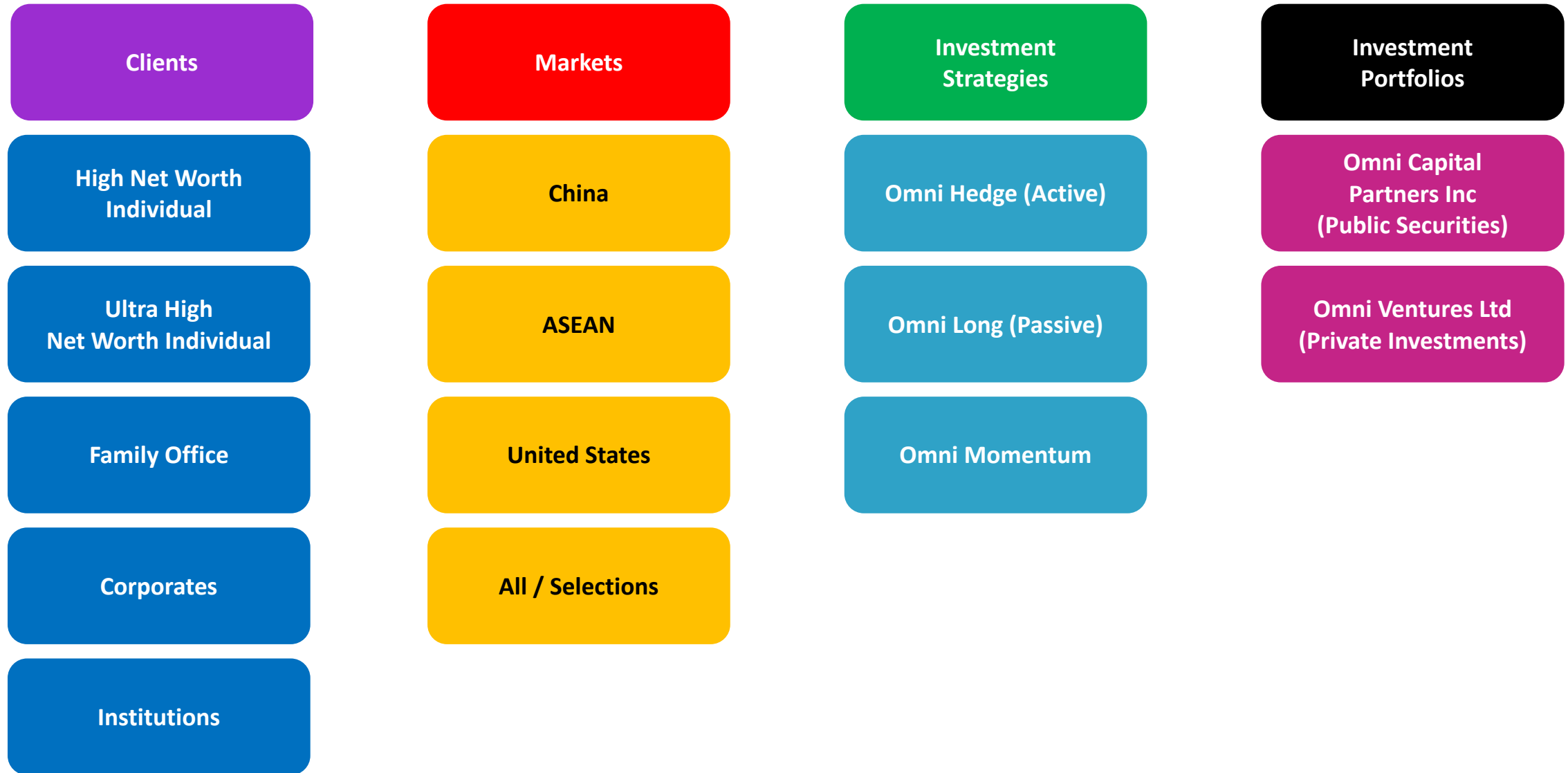
Experienced with  
Impressive Track  
Records

Different Approach,  
Perspective and  
Ideas

Global Investing  
with focus on  
China, ASEAN, and  
United States

Thematic Investing  
with focus on  
Disruptive  
Technology

# Omni Investment Advisory



# Omni Investment Focus



## Asset Classes

### Public Securities:

- Public Equity
- Digital Assets
- Forex
- Commodities

### Private Investments:

- Startups
- Venture Capital
- Private Equity
- Direct Investments

# *Investment Review and Outlook*



- According to BofA report, January is Asia's “big month”: January 13 is voting day for the Taiwan Regional Election, and January 22, the Bank of Japan may end extremely loose monetary policies such as YCC (yield curve control) and NIRP (negative interest rate policy). The biggest event is probably the announcement of the US Treasury bond issuance plan for the first quarter on January 29. The lower-than-expected issuance scale announced on October 30 was the trigger for a “rebound of everything” in the fourth quarter. US bond yields fell from 5% to 4%. Furthermore, January 19 may be the day the US government shuts down. US debt increased by 1 trillion US dollars in 106 days. Currently, the debt size exceeds 34 trillion US dollars. The consensus predicts that the US debt plan of 970 billion US dollars will be announced on January 29, and fear of higher numbers = higher yields. US bonds are in a short-term cyclical bull market in a long-term bear market.
- The Fed and US bond yields are influencing the trend of the bond market and stock market. Falling inflation and interest rates may have a positive impact on risky assets, but if the unemployment rate rises, lower interest rates may have a negative impact on risky assets. For the 2024 capital market, the yield of the Federal Reserve and US Treasury bonds are undoubtedly the two most critical variables. However, in terms of asset prices, It is believed that there are three aspects that have the greatest impact: pricing, corporate profits, and new events affecting interest rate (policy) expectations.

# *Investment Review and Outlook*

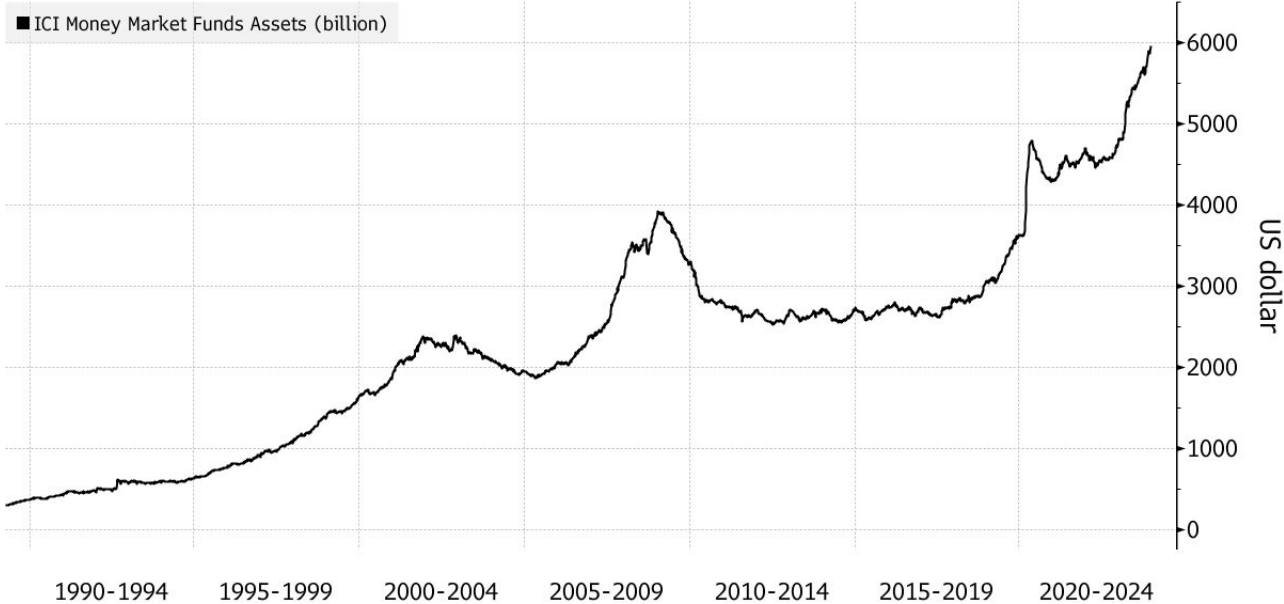


- The Fed has begun to discuss the slowing of QT. It was mentioned at its December meeting, and then again in comments from Dallas Fed president Lorie Logan, who explicitly referenced the distribution problem, stating individual banks can approach scarcity before the system as a whole. Several banks have mooted summer or as early as April for when the Fed starts to taper or end QT. This imputed switch in focus to reserves is a big gamble for the Fed, as it assumes inflation will continue to moderate this year back towards the 2% target. But there's an increasing litany of reasons why that might not happen, with, to name a only a few, supply constraints worsening again, leading indicators for wages climbing, and a still-large fiscal deficit. In this paradigm of increasing fiscal dominance, where government borrowing and spending decisions overwhelm monetary policy, central-bank independence has been eaten away at, and instead has led to a form of “reserve dominance”, with decisions on rate cuts and QT, as well as the evolution of markets, the economy and Treasury funding, heavily intertwined.
- A key China's central bank (PBoC) official signalled earlier this week that PBoC may lower the reverse ratio requirements for Chinese banks in 2024 which translates to a potential further accommodative monetary policy stance. Also, the downside pressure inflicted on the yuan via an accommodating monetary policy is likely to be reduced in 2024 as the US central bank, the Fed may start to embark on a dovish pivot path for interest rate cuts in the US.

# Money Market Funds Assets at Record



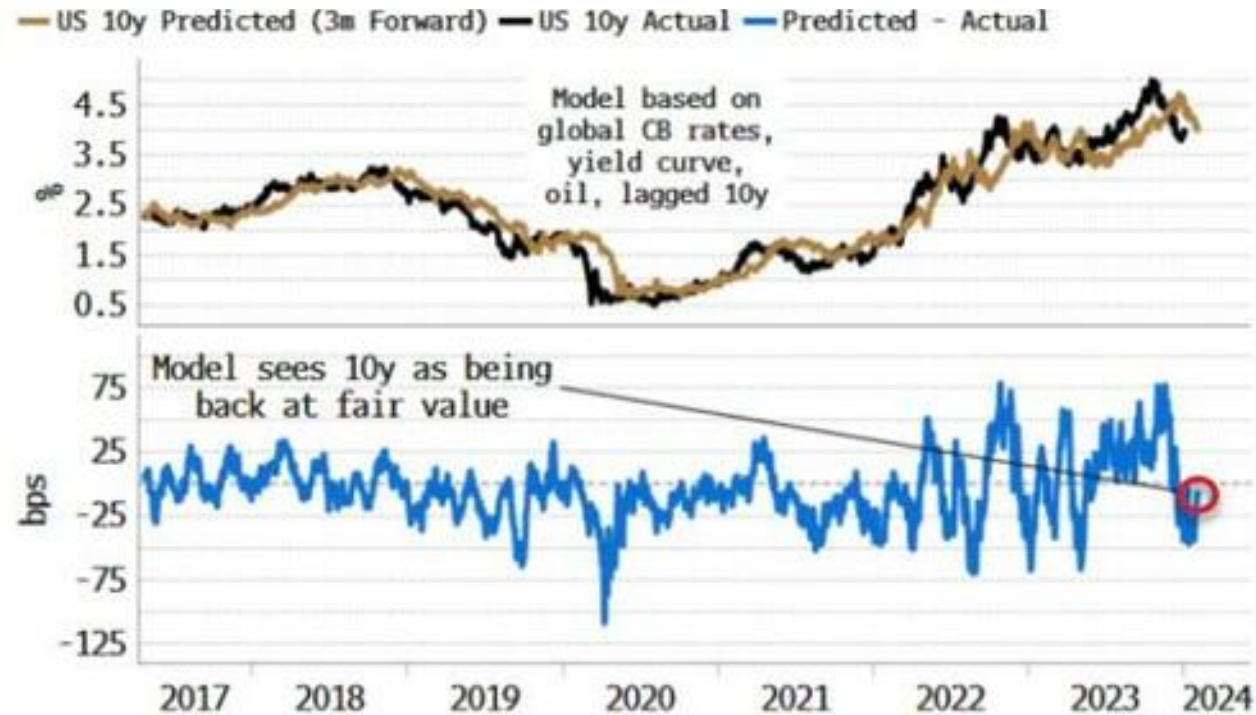
## Investors have been rushing to cash with assets rising to \$6 trillion



Investors poured \$123 billion into cash funds in the week through Jan. 3, according to Bank of America Corp. While inflows to money markets are typical at the start of each year, the sum was the largest ever for the first week, strategists led by Michael Hartnett wrote in a note, citing EPFR Global data.

Note: Information as of January 2024  
Source: Bloomberg, BofA

# US 10Y at “Fair Value”



The annual growth in payrolls has been steadily falling, but the recent move in claims suggests at least a short-to-medium term bounce, which if it manifests should soon be reflected in the monthly payrolls numbers.

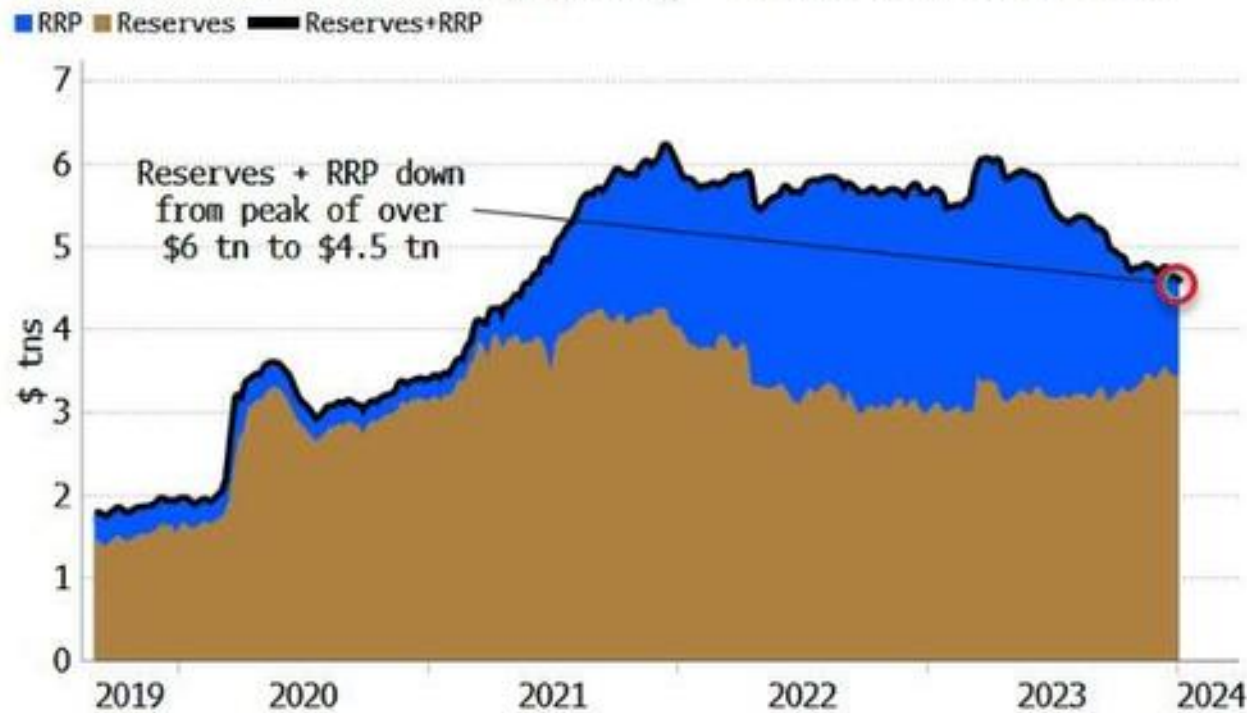
This would further challenge the five-plus rate cuts priced in for this year, and be supportive for longer-term yields. Nonetheless, after the assertive bond rally prompted by the Federal Reserve’s unexpected dovish backflip in December, bonds are back to trading to close to fair value.

This is based on a model for US 10-year yields which includes global central bank rates, the yield curve, oil prices and the lagged value of the 10-year yield.

The model initially had yields ~50 bps too low in the wake of the Fed’s pivot, but with the 10-year back to ~4.04%, that is very close to the model’s estimate of fair value.

Note: Information as of January 2024  
Source: Bloomberg

# Reserves & RRP are Falling Quickly



Note: Information as of January 2024  
Source: Bloomberg

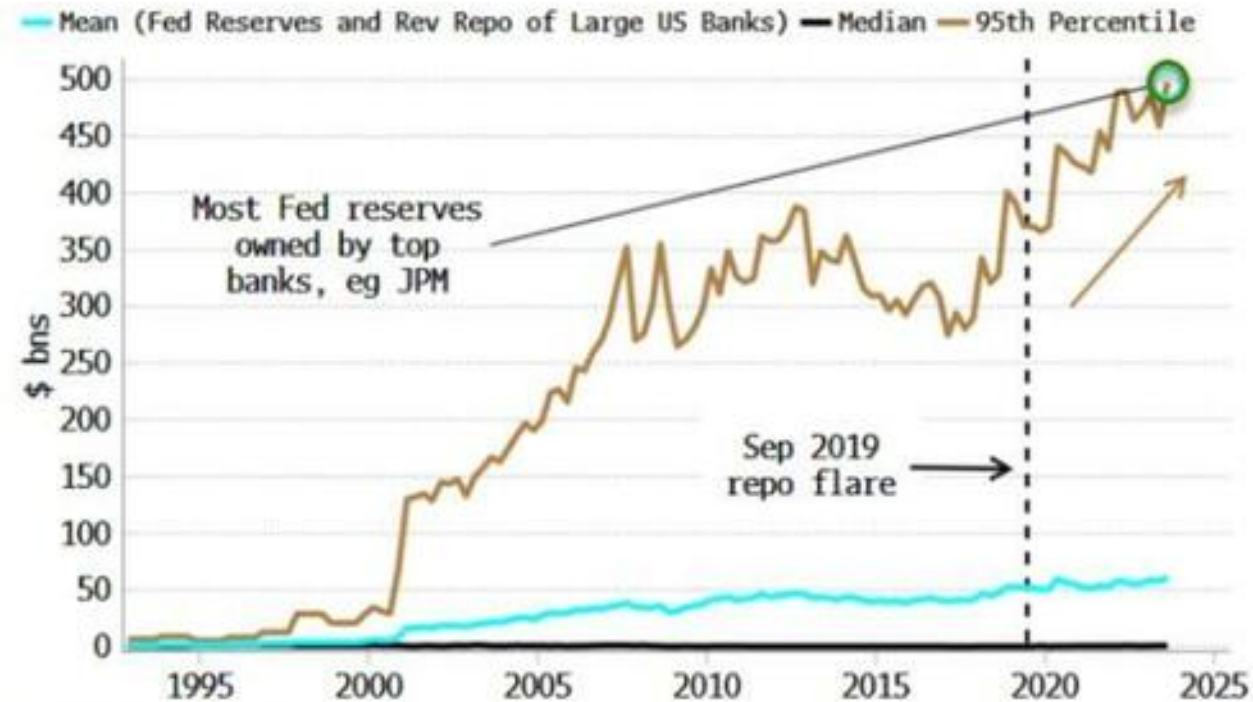
To put it succinctly, the primary binding constraint on the Fed this year – and thus a key driver of the bank’s decision to pivot and when it cuts rates – is reserves. These are the frontline defense against a sharp drop in risk assets, dysfunctional funding markets, and thus a hard landing.

A cut in rates therefore need not require a significant worsening in the economy, leaving a March rate reduction on the table. With -18 bps currently priced in for that month, the risk-reward is not currently attractive, but at around -7 bps or more that calculus changes.

The liquidity backdrop for most of 2023 was benign as the Treasury skewed issuance towards bills which were scooped up by money market funds using idle liquidity parked at the Fed’s reverse repo facility (RRP).

But the RRP is falling rapidly and, unchecked, the liquidity environment this year is set to become much more hostile for risk assets and the economy.

# The Skew in Reserve Ownership

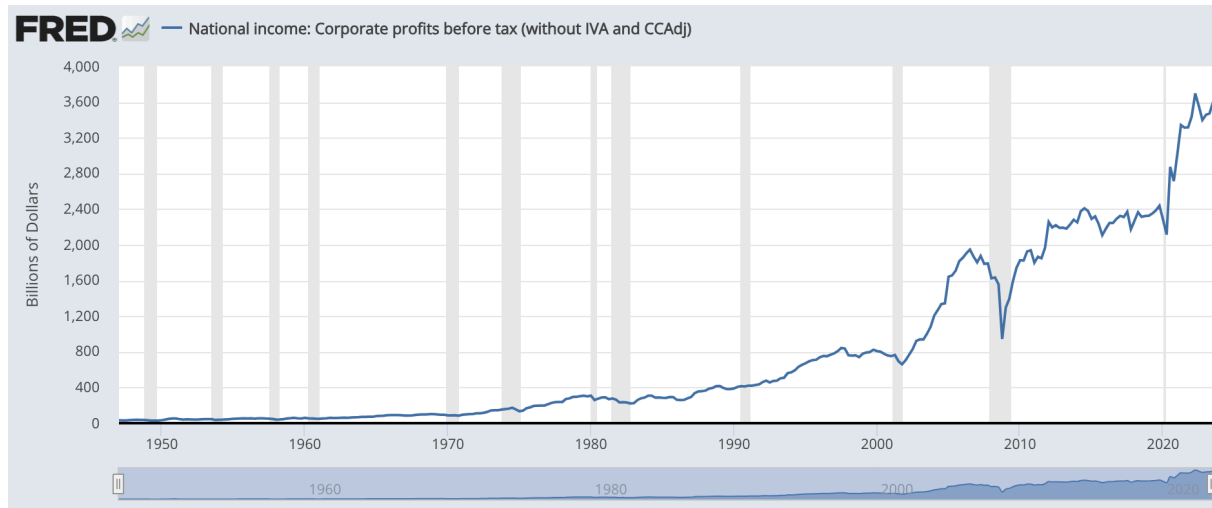


The distribution of ownership resembles a power law, with most of the reserves held by only a very few banks (with JP Morgan the largest holder). This likely played an important part in the repo funding crisis in September 2019, which struck even though there were still ~\$2 trillion reserves in the system.

That skew in ownership is even more extreme now, with the top 5% largest US banks owning almost 40% of reserves.

Note: Information as of January 2024  
Source: Bloomberg

# Inflation Remains Elevated Thanks to High Profits

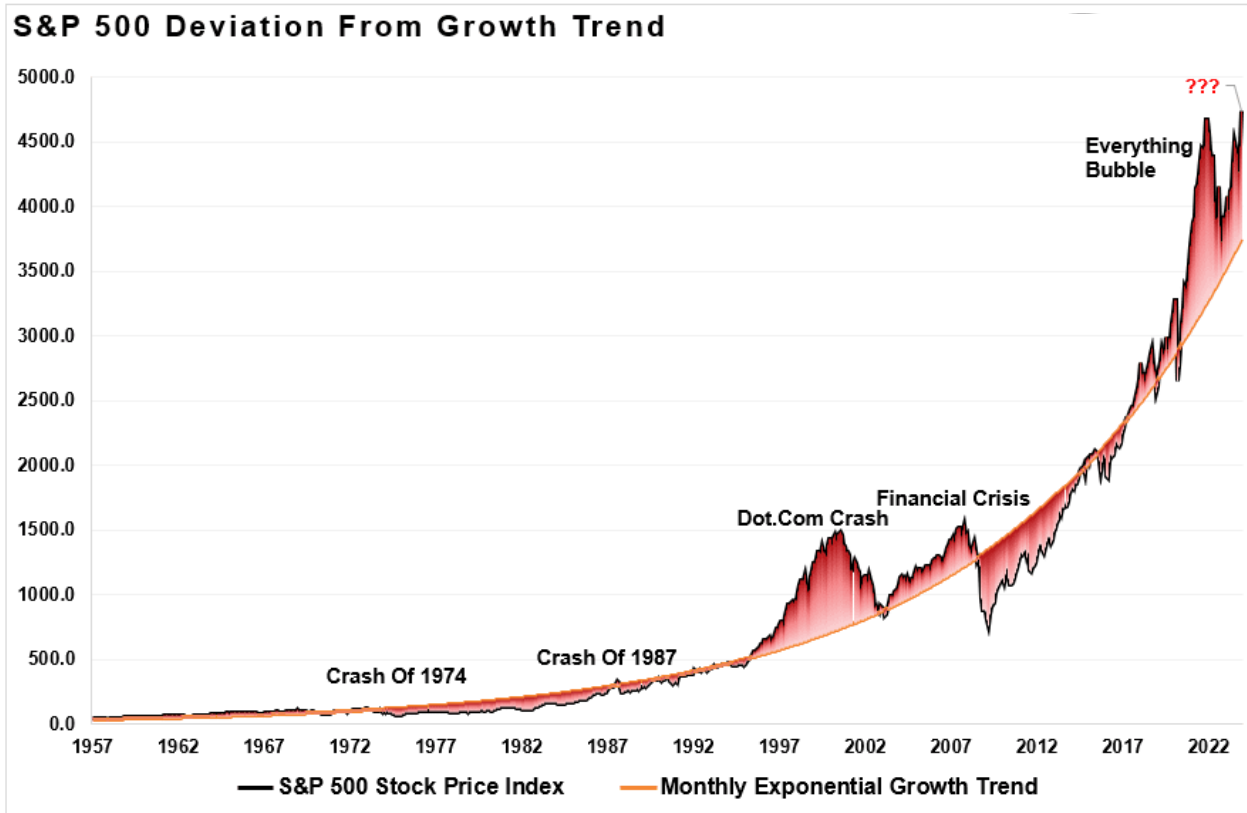


Corporate profits surge, not as a result of increases in productivity or the quality of goods and services. Rather due to:

1. Quasi-monopolies
2. Profiteering / price-gouging
3. Quantity reduction
4. Quality reduction

Note: Information as of January 2024  
Source: Fred

# Risk-off Sentiment Needed to Bring Down Inflation



During the last decade, those fiscal and monetary inputs fostered history's most significant asset bubble. In 2020, the pandemic started the needed reversal of those excesses but was cut short by massive monetary and fiscal interventions. The current deviation of the market from the long-term exponential growth trend is once again pushing record levels.

Note: Information as of January 2024  
Source: RIA

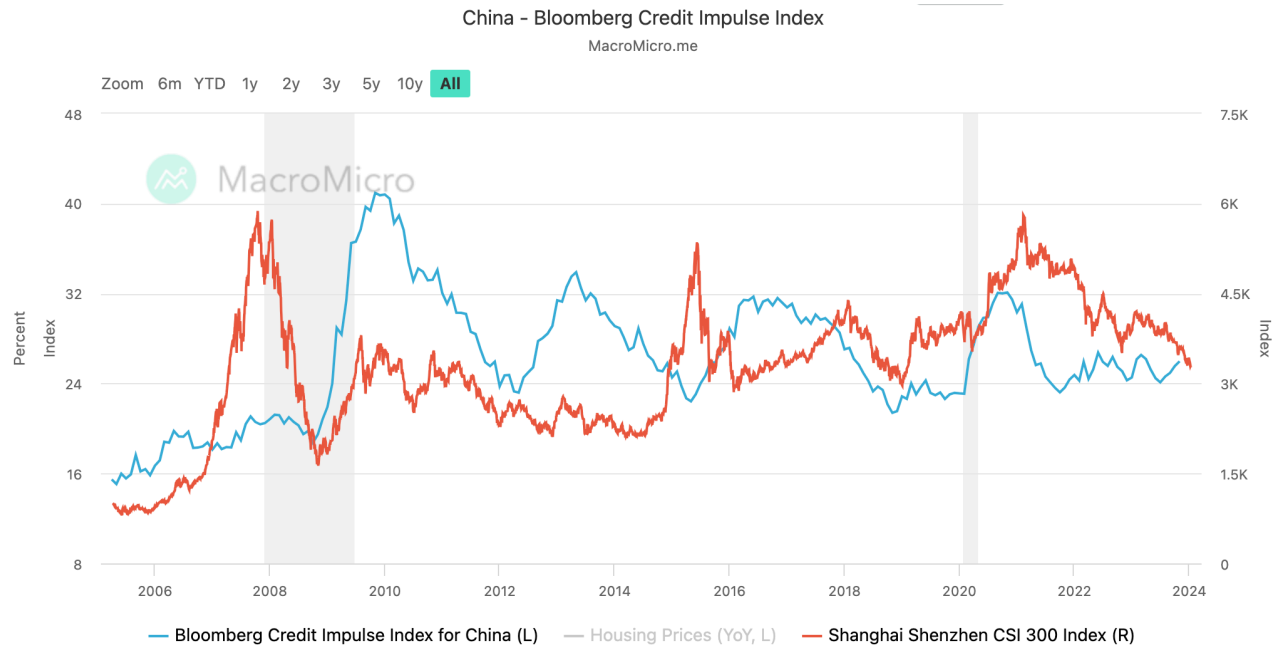
# EM vs US Equities (USD Terms)



It's been 52 years since EMs were this cheap relative to US equities.

Note: Information as of January 2024  
Source: BofA

# Positive Outlook in Credit Impulse Index



The Bloomberg Credit Impulse Index for China, a measurement of credit/liquidity growth has been on a slow upward trajectory since July 2023.

Note: Information as of January 2024  
Source: MacroMicro

# Contact Info



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