Asia Morning Bites

A busy day for data with regional PMI reports, Japanese labour figures and trade data from Korea while Indonesian inflation will be reported later this afternoon

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Global macro and markets

- **Global markets:** Treasury yields continued their slow march higher on Thursday. 2Y Treasury yields rose 3.5bp to 4.68% and 10Y yields rose 7.1bp to 4.326%. Jerome Powell is slated to speak at an event in Atlanta today, which will be watched closely for any hints of rate cut timing. We suspect this will be a very tightly choreographed session and will stick to the pre-Waller script of caution when it comes to further hikes but with no hint of easing. The USD benefitted from the higher yields, and EURUSD has dropped back to 1.0894. The AUD is slightly weaker at 0.6608, Cable is more obviously softer at 1.2630 and the JPY is also a little weaker, pushing back above 148. Asian FX lost ground to the USD yesterday. The worst affected were the THB and IDR. USDCNY is back up to 7.1350 now. US Stocks were mixed. The S&P 500 rose 0.38% on the day, helped by energy stocks as OPEC+ agreed to cut output by an additional 1 million barrels per day, but the NASDAQ fell 0.23%. Chinese stocks also eked out some small gains. The CSI 300 rose 0.23% and the Hang Seng rose 0.29%.
- **G-7 macro:** US October Core PCE inflation dropped from 3.7% to 3.5% YoY, in line with expectations. The headline PCE inflation rate fell to 3.0% YoY, falling a little more than forecast. But real consumer spending was slightly stronger (0.2% MoM vs 0.1% expected). In

the Eurozone, inflation data surprised on the downside. The November estimate for CPI inflation dropped from 2.9% to 2.4% YoY, while the core inflation rate fell from 4.2% to 3.6% YoY, encouraging thoughts of early rate cuts. Today's data focuses on the US Manufacturing ISM index, reminding us that it is payrolls week next week. US October construction spending data are also released.

- **India**: GDP growth for 2Q23 exceeded the consensus forecast of a 6.8% YoY rise in 3Q23, notching up growth of 7.6% YoY (ING f 7.1%). Government consumption and business investment drove the increase. This puts India firmly on track to achieve and probably exceed 7% growth for the full calendar year. The INR didn't benefit from the release, and moved to 84.39, slightly weaker, though still within the very tight range it had traded in for months.

- **Korea:** Korea's exports seem to be gaining some momentum in November as exports rose more than expected, rising by 7.8% YoY (5.1% in October, 5.0% market consensus). Semiconductor exports rebounded smartly, rising 12.9% in November, and ending a 15-month-long decline. Also, imports dropped -11.6% in November (-9.7% in October, -8.6% market consensus), mainly due to falling global commodity prices, resulting in a widening trade surplus. We think that exports will continue to improve, becoming a major driver for growth for the next couple of quarters. In addition, the manufacturing PMI rose to 50.0 in December (vs 48.8 in November), returning to the 50 level for the first time since Aug 2022, and supporting our positive outlook for exports. One concern is that future export outcomes could be volatile, as the export recovery will be fairly narrowly focused on semiconductors.

- **Japan:** Today's data releases suggest that the labour market remains tight and there are good signs of solid wage growth in the future. The unemployment rate edged down to 2.5% in October (vs 2.6% in September, market consensus) while the job-to-application ratio went up slightly to 1.30 after having stayed at 1.29 for the past three months. In a separate report, capital spending in 3Q23 rose 3.4% YoY in line with the market consensus. 3Q23 GDP contracted, but corporates increased their investment, signalling a positive outlook for production and hiring. Also, corporate profits (20.1%) improved for a third consecutive quarter, partially boosted by the weak JPY.

- **Indonesia:** November inflation is set for release today. Headline inflation is expected to rise to 2.7% YoY from 2.6% previously while core inflation could be steady at around 1.9% YoY. Inflation is expected to accelerate going into 2024 according to BI Governor Warjiyo. The anticipated pickup in price pressures next year will likely prevent BI from cutting rates early with the policy rate likely untouched until the second half of the year.

What to look out for: Indonesia inflation and US ISM

- Indonesia CPI inflation (1 December)

- US ISM manufacturing (1 December)

- Fed Chairman Powell speaks (1 December)

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