

Asia Morning Bites

Weak Korean exports and possible PBoC tweaks to CNY currency management. Market noise about Fed May "pause" isn't causing much reaction with markets already there



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Macro Outlook

- **Global Markets:** Tuesday was almost a complete reversal of Monday for US stocks, which rallied, possibly taking comfort ahead of the FOMC from some reports that the Fed may pause their hiking after the next couple of meetings. So much for the so-called blackout period! Chinese stocks declined for a second consecutive day. The Fed pause story only seems to have confirmed what markets were already suspecting, and 2Y US Treasury yields only dropped 3.3bp, with 10Y yields down a similar amount to 3.507%. Currency markets don't seem to be affected much either. EURUSD remains in the upper half of the 1.08s, the AUD in the mid-0.70s, Cable has retreated slightly to 1.2312. And the JPY remains close to 130. Other Asian FX was on the weaker side yesterday. The INR, THB and MYR all lost more than half a per cent to the USD. The CNY remained firm at 6.7553 after some solid PMI data (see also below)
- **G-7 Macro:** [The Eurozone just managed to eke out a positive 4Q22 GDP figure](#), though 0.1%QoQ is not particularly impressive either. Today will be all about the [FOMC decision and subsequent press conference](#). The decision is at 3 am Singapore time, so will be ready for your cornflakes tomorrow. A 25bp hike looks all but assured, and the real question is

whether the pause story currently doing the rounds will get any further endorsement, or if Powell will push back and try to engineer some tighter financial conditions. Inflation is now below where the Fed was forecasting it to be back at their December meeting, so they would be within their rights to acknowledge the progress made. Recent talk about service sector inflation ex-housing is all very well and good, and you can keep stripping away the bits of inflation that are falling to keep pretending that you still have a problem, but it gets less and less credible with each passing month. Wages will, without doubt, follow the headline rate of inflation lower – slowly, and with a lag, but they are already turning down, and that is giving you a fairly helpful forward-leaning clue. It's the ECB and BoE tomorrow to add to the excitement. Both are expected to raise rates 50bp.

- **China:** There has been some market speculation that the People's Bank of China may lift previous counter-cyclical measures in light of the recent strengthening of the RMB. This could include the removal of the 20% risk reserve on foreign exchange forward buying or maybe feature an increase in the foreign exchange deposit reserve ratio. This "speculation" comes from Premier Li's urging for a stable exchange rate and financial sector. The current USDCNY level at around 6.7 is around the middle of the range for the past five years. It may be a bit early to remove the risk reserve on FX forward purchases or any similar actions. 6.5 seems to be a more reasonable level. However, we cannot rule it out as the Chinese government wants the economy to recover smoothly during the reopening period. If there is anything that could hurt the economy at the moment, the government is likely to try to minimise the risk. Assuming the PBOC does remove the 20% risk reserve, we do not think that this will have a long-term impact on the RMB but there could be some short-term volatility in the FX market similar to the opposite operational impact we have seen during previous CNY depreciations.
- **South Korea:** Korea's exports fell 16.6% YoY in January (vs -9.6% in December, -11.1% market consensus) mainly due to sluggish chip exports (-44.5%). Imports dropped modestly (2.6% YoY), resulting in a trade deficit of 12.7 billion USD, which is the largest on record. We think that January's weaker-than-expected export result adds more downside risk to first-quarter growth. As the downcycle of semiconductors is only expected to bottom out by the end of the 2nd quarter, we think poor exports will likely continue for the time being.
- **Indonesia:** Indonesia reports January inflation today. Headline inflation will likely moderate further to 5.4%YoY (from 5.5% previously) although core inflation could inch higher to 3.5%. Bank Indonesia (BI) Governor Warjiyo warned that price pressures would remain in 2023 which was the main consideration for BI's rate hike in January. We expect BI to take their queue from core inflation and we could see BI reversing their stance should core inflation head back towards the central bank target of 3%.

What to look out for: Regional PMI readings, US ADP report and the FOMC decision

- New Zealand unemployment (1 February)
- South Korea trade balance (1 February)
- Japan Jibun PMI (1 February)

- Regional PMI manufacturing (1 February)
- China Caixin PMI manufacturing (1 February)
- Taiwan industrial production (1 February)
- Hong Kong GDP (1 February)
- Indonesia CPI inflation (1 February)
- US ADP employment change (1 February)
- ISM manufacturing (1 February)
- FOMC meeting (2 February)
- South Korea CPI inflation (2 February)
- ECB policy meeting (2 February)
- US initial jobless claims, durable goods orders and factory orders (2 February)
- Japan Jibun PMI services (3 February)
- China Caixin PMI services (3 February)
- Singapore retail sales (3 February)
- US non-farm payrolls and ISM services (3 February)

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