Asia Morning Bites

Korean exports bounce strongly. Regional PMI reports including the Caixin PMI reading are also due

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Global Macro and Markets

- **Global markets:** Jerome Powell's pushback against a March rate cut at the FOMC meeting last night didn't have quite the impact you would have expected on the Treasury market. 2Y yields plunged by 12.8bp to 4.207%, while the yield on the 10Y Treasury dropped 11.9bp. Maybe it was the impact on the equity markets, which led to the rush into bonds, as both the S&P 500 and NASDAQ dropped sharply (-1.61% and -2.23% respectively). Some problems at a New York community bank which caused its shares to plunge were also no doubt a reason for the move into safer bonds. Equity futures suggest a bounce may occur at today's open. Chinese stocks kept on falling. The Hang Seng dropped another 1.39% while the CSI 300 fell 0.91%. They are now down more than 9% and 6% year-to-date respectively, and January has only just ended.
- The drop in yields has not hurt the USD, though it was looking a lot weaker at one stage before a late rally brought it back to 1.0810. The AUD had a very whippy day yesterday following the release of the inflation data for December, but is currently down on yesterday's level at the same time, trading at 0.6566. Cable is roughly unchanged after an abortive attempt to push higher, and the JPY is a little stronger at 146.89, which may support the idea that markets are looking a bit more risk off. Bitcoin is a little lower, gold a

little higher.

- Most of the Asian FX pack lost a little ground to the USD yesterday though as the USD rally was quite late in the day, there may be some more catch-up today. The TWD and KRW were at the bottom of the pack, losing about 0.4% each. The PHP clawed back a little ground, and the CNY was also fractionally stronger at 7.1689. Also worth noting, the INR seems to be pushing slightly stronger. Reports have suggested that the RBI is not sterilizing inflows to the bond market ahead of the inclusion of Indian government bonds in the JPM world index. That should result in greater liquidity and so be INR negative, so maybe this is an attempt to allow the market to soften the FX impact of these inflows. In any case, the RBI seem to be a little more relaxed about slight INR appreciation.
- **G-7 macro:** No change from the FOMC last night. But Powell's remark that March cuts are not their base case was probably what many, including ourselves, were expecting. The Fed also removed the tightening bias, which some may view as a harbinger for cuts, but Powell's remarks were no doubt aimed to dispel such thoughts. Here is the write up from the US team. Our house view is still that there will be no easing until May.
- Yesterday also delivered the ADP survey. This showed job creation slowing to a 107K pace from 164K the previous month. This is no longer a reliable indicator for non-farm payrolls (it wasn't much good previously, but everything else was even worse). Today's weekly jobless claims should have no relevance to this payroll release, as they will fall outside the sample period, but the market sometimes doesn't care. The US manufacturing ISM is the other big release of the day. Preliminary January inflation data from the Eurozone could encourage thoughts of ECB easing again as they should show CPI inflation falling closer to the ECB's 2% target. We also have a Bank of England rate decision today. Bank rate will not be changed and we think the BoE will lag behind the other central banks when it comes to easing.
- **South Korea:** Exports jumped 18.0% YoY in January (vs 5.0% in December, 17.6% market consensus), but the rise was slightly exaggerated due to Lunar New Year holidays. This January has 2.5 more business days than last January. Daily average exports rose 5.7%, so the robust export trend continued in January. The recovery of semiconductor exports (56.2%) is one of the main reasons for the growth, and exports to China finally turned positive for the first time in twenty months. We expect exports to improve in the coming months, but due to the Lunar New Year effect, headline figures will fluctuate and February export growth will likely slow down quite sharply. Meanwhile, imports declined -7.8% YoY in January (vs -10.8% in December, -9.1% market consensus) and the trade surplus narrowed to USD 0.3bn from USD 4.4bn last month.
- **Indonesia:** January CPI inflation is set for release today. Market consensus points to headline inflation settling at 2.5%YoY with the core rate flat at 1.8%YoY. Inflation has remained subdued lately, but BI Governor Warjiyo remains wary of a potential flare-up in price pressures especially with the central bank adopting a lower inflation target of 1.5-3.5% this year. Warjiyo has signalled that he's likely to remain on hold for the first half of the year but remains open to cutting rates once the Fed begins its own series of rate reductions.

What to look out for: China Caixin PMI and regional PMI readings

- South Korea trade (1 February)
- Regional PMI (1 February)
- Indonesia CPI inflation (1 February)
- China Caixin PMI (1 February)

- BoE meeting (1 February)
- US initial jobless claims and ISM manufacturing (1 February)
- South Korea CPI inflation (2 February)
- Australia PPI inflation (2 February)
- US NFP and University of Michigan sentiment (2 February)

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