Asia Morning Bites

USD off to a strong start at the beginning of September

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Macro outlook

- **Global markets:** US equities continued their slow bleed on Wednesday, the S&P500 dropping another 0.78% and the NASDAQ going 0.56% lower. This wasn't exactly a one-way street, with some periods of strength within the session, but the downtrend was never seriously threatened. Equity futures are poised for more weakness today too, which could set the scene for other asset markets today ahead of tomorrow's payrolls release. 2Y US Treasury yields added another 5.1bp yesterday, which probably didn't help the tone in equities, and 10Y yields put on another 9bp to reach 3.19%. News from the Fed: Loretta Mester is reported as saying that she favours rates above 4% next year and no cut in rates in 2023. That probably helped keep Treasury yields rising across the curve. But despite the downbeat market sentiment and rising USD rates EURUSD managed to rise to 1.004, up from 1.001 this time yesterday. In contrast, the AUD is looking troubled again today following its sell-off yesterday and sits at 0.6835, and looks more likely to keep going down than head back up. Cable too looks in bad shape, dropping to 1.1599 and the JPY is hurtling upwards and at 139.29, the question is, do we hit 140 today? Asian FX saw some decent gains from the KRW yesterday, which pulled back to 1338. The INR is also still benefitting from rumours of the inclusion of government securities into global bond indices. Today, the USD looks rampant, however, and it may well be a different story.
- **G-7 Macro:** Yesterday's ADP survey was published with a new methodology to make it more

accurate (in line with payrolls) and it delivered a weakish looking 132,000 employment gain. It's impossible to tell if this will be reflected in tomorrow's jobs report, but it does seem to suggest that at least a slowdown from 528,000 jobs gain reported in July is on the cards. Manufacturing ISM data is the main release from the G-7 today. A slight decrease from last month's 52.8 reading is the median expectation. The prices paid index is also expected to come down a bit more from last month's reading of 60.0. There are also PMI releases in Europe and German retail sales to watch out for.
- **India**: Indian 2Q22 GDP wasn't quite as punchy as had been expected, though the heavily base-affected release is a little tricky to interpret right now. A 13.5% YoY gain was a bit down on the 15.3% increase that had been expected, but probably still leaves India on track to achieve 7% growth this calendar year. Strong investment (+20.1%YoY) and private consumption (25.9%) underpinned the result. Though the boost from the re-opening of the economy will probably fade next quarter, and the economy will face stronger headwinds from falling external demand, higher inflation and rising domestic interest rates. The fiscal deficit figures for July actually registered a small surplus, which is an improvement on last year's equivalent fiscal balance and should keep India on track to meeting or even beating its 6.4% (GDP) deficit target.
- **Australia**: Private capital expenditure released at 0930 SGT provides the first insight into next week's 2Q22 GDP figure. The median forecast is for a 1% gain. A further clue comes the day before the release when we get the net trade contribution component. We are tentatively looking for a robust 1% QoQ expansion of activity in 2Q22, which will add to the pressure on the Reserve Bank to keep leaning against inflation.
- **Korea**: The trade deficit widened to a record USD -9.4 billion in August, almost double the USD 4.8 billion deficit recorded in July. Exports grew 6.6% YoY in August (vs a revised 9.2% in July and a market consensus of 5.6%). As early data suggested, semiconductor exports were quite weak with a -7.8% drop while petroleum/chemical and automobiles led the growth. Meanwhile, imports surged 28.2% YoY in August (vs 21.8% in July and market consensus of 23.7%) due to increases in energy, semiconductors, and chemicals. Separately, Korea's manufacturing PMI fell to 47.6 in August from 49.8 in July. This is its lowest reading since July 2020. The output index fell to only 44.6, staying below 50 for the fourth month in a row. Combining this weak PMI data with the trade deficit data and yesterday's weaker-than-expected industrial production outcomes, we are revising our growth forecast lower for the second half of the year and now expect a small contraction
- **Indonesia:** August inflation is set for release today. Both headline and core inflation have been on an uptrend this year with headline inflation now past the central bank's target. Headline inflation will likely settle close to 5%YoY while core inflation should exceed 3%. Accelerating inflation and a planned subsidized fuel hike were enough to prod Bank Indonesia to finally hike rates at their last meeting and we believe that BI is not done for the year. Faster inflation, especially after the fuel hike should keep BI on a hiking path.

What to look out for: Regional PMI manufacturing and US NFP

- South Korea GDP and trade (1 September)
- Regional PMI manufacturing (1 September)

- China Caixin PMI manufacturing (1 September)
- Indonesia CPI inflation (1 September)
- US initial jobless claims and ISM manufacturing (1 September)
- Fed's Bostic speaks (2 September)
- South Korea CPI inflation (2 September)
- US non-farm payrolls and factory orders (2 September)

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