Asia Morning Bites

Big rally in Asian FX yesterday, but today could see some profit taking

Source: shutterstock

Macro outlook

- **Global Markets:** Monday stands for "mainly mediocre". US stocks opened up but after rising in early trading, lost momentum and slid towards the close. This left the S&P500 roughly unchanged on the day, though the NASDAQ hung on to some of its gains and finished up by 0.63%. After tumbling sharply on Friday following the payrolls report, US Treasury yields only declined slightly more on Monday. 10Y Treasury yields fell 2.6bp to yield 3.53%, while 2Y yields dropped by 4bp. Two Fed officials yesterday hinted that they saw rates being raised above 5%. Raphael Bostic saw rates rising to 5-5.25%, while Mary Daly gave a vaguer "somewhere above 5%" indication. Both suggested that rates could start to go up in 25bp increments from here. Fed funds futures markets have reverted to not pricing in even 5% for peak Fed funds. The current implied peak comes in June this year at 4.93%. There were further increases in the EURUSD yesterday, which has now risen to 1.0733. This was mirrored in the AUD, which is back above 69 cents, and at its highest level since September last year. Cable is also up at 1.2185 and the JPY is steady at 131.70. Asian FX had a great day yesterday. The KRW gained 2%, leading a pack that saw gains across the board. The THB, PHP, CNY, and SGD all gained between 1.69% (THB) and 0.7% (SGD). Today will likely see much more muted gains and perhaps some profit-taking.
- **G-7 Macro:** It was a quiet day for macro news in the G-7 yesterday. And it is also relatively quiet too today. The US NFIB business survey will be the main data point to look at.

- **China:** Fiscal spending in 2023 should be stronger than last year. Increased spending for 2023 includes an increase in the issuance of special local government bonds and tax breaks for small and medium-sized enterprises. The aim of more government spending is to increase employment during the reopening process. So far, the reopening (which began on 8 January) has resulted in a greater increase in arrivals than departures as outbound travel has been deterred by the requirement for Covid tests in some foreign locations. We expect retail sales to pick up gradually in 1Q23 as some people could still be struggling to land a job at the beginning of the reopening process. Then we should see more pickup in activity in 2Q23, and more solid growth in 2H23.

  Chinese New Year annual migration has already started, and so far, we see more mobility than last year. This year, there are no "border controls" when people travel across provinces in Mainland China. The point to look for is whether this year's migration can reach a level similar to early 2020 (before Covid restrictions were imposed)

  Japan: Tokyo December CPI inflation data has been released. Both headline and core inflation (excluding fresh food) hit 4.0% YoY for the first time since 1982. As core inflation beat the market consensus of 3.8%, market expectations for the Bank of Japan’s (BoJ’s) exit strategy are expected to rise. But we do not believe that this data will persuade the BoJ to take any further action at their meeting next week. The BoJ thinks that higher-than-usual inflation is not sustainable, plus, other data, such as today’s household spending and the latest real cash earnings, both contracted, signalling weak growth.

  South Korea: The current account posted a deficit of USD0.6bn in November - the first deficit in three months. The deficit in the goods account widened due to higher commodity prices together with sluggish exports. Also, the deficit in the services account widened as freight fares fell and outbound travel increased significantly. Today’s weak current account adds more downside risk to last quarter’s GDP. With Industrial production and trade weaker than expected, we are considering lowering our GDP forecast for 4Q22 from -0.1% QoQ to -0.2%.

  Philippines: November trade data is out today. Exports may revert to negative territory after last month's surprise growth given expectations for weak demand for electronics. Imports, on the other hand, will likely sustain gains but fall short of double-digit growth as global energy prices eased from their peak in 2022. The overall trade deficit should remain sizable at roughly $4.5bn, enough to keep the PHP from appreciating sharply this year as the current account remains in deficit.

What to look out for: US and China inflation reports later in the week

- Philippines trade balance (10 January)
- South Korea good balance (10 January)
- Japan Tokyo CPI inflation (10 January)

- US NFIB small business optimism survey (10 January)
- Powell gives speeches (10 January)
- Australia retail sales (11 January)
- Malaysia industrial production (11 January)
- Japan trade balance (12 January)
- Australia trade balance (12 January)
- China CPI inflation (12 January)
- India CPI inflation (12 January)
- US CPI inflation and initial jobless claims (12 January)
- Fed’s Harker gives a speech (12 January)
- South Korea export price index and BoK decision (13 January)
- US University of Michigan sentiment (13 January)
- Fed’s Bullard gives speech (13 January)
- China trade balance (14 January)

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