

## Asia Morning Bites

Japan avoids a technical recession but 4Q23 GDP growth disappoints. China's weekend inflation numbers should quiet alarm over disinflation



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### Global macro and markets

- **Global Markets:** It didn't take markets long to realize that Friday's payrolls report didn't look as strong as the headline figures suggested and US Treasury yields dropped sharply after their initial spike, but rose subsequently, leaving yields roughly unchanged. [Here is James Knightley for more on the report.](#) The 2Y yield is currently 4.474% and the 10Y yield 4.075%. Larry Summers has stated that he thinks the Fed is "way off" on their estimates of neutral rates and says that there is a decent chance of no rate cuts this year. At the moment, the market is not listening. EURUSD also didn't deviate from its level for long, and at 1.0942, is close to where it was at the beginning of Friday. Cable is a bit stronger at 1.2854, and the JPY continues to make gains, declining to 146.86 on rate hike hopes. But the AUD is pretty flat. Asian FX made decent gains on Friday, led by the KRW, which has gapped down to 1319.75. SE Asian FX also made decent gains. The CNY has drifted down to 7.1873. US stocks didn't like the payrolls release. The S&P 500 fell 0.65% and the NASDAQ dropped 1.16%. Chinese stocks did better, and both the Hang Seng and CSI 300 made gains on Friday.
- **G-7 Macro:** The details of Friday's labour market are as follows: Non-farm payrolls rose by 275,000, well above the 200,000 gains expected. But there was a downward revision to the

previous two months' data of 167,000, so the net result was much smaller. The unemployment rate rose to 3.9% from 3.7% thanks to a 334,000 rise in the number of unemployed. The average hourly wage rate grew by only 0.1%, allowing the rate of average annual hourly wage growth to decline by 0.1pp to 4.3% YoY. Besides the fourth quarter 2023 Japanese GDP (see below) there isn't much on the G-7 calendar today. But tomorrow we get US CPI inflation.

- **China:** Over the weekend, the February CPI inflation data was released, coming in higher than expected at 0.7% YoY. Markets were looking for a boost from food prices due to the Lunar New Year, but overall, food prices remained in negative growth for the seventh consecutive month at -0.1% YoY despite an uptick in pork and fresh vegetable prices. Instead, the biggest contribution to CPI inflation was from tourism, which surged 23.1% YoY amid strong holiday spending. Overall, it was a relatively encouraging read for inflation and should temporarily quiet the deflation worries, though inflation will likely remain weak for most of 1H24. The uptick will probably have no impact on PBOC monetary policy direction, where we continue to expect a cut to the LPR as well as a further RRR cut in the coming months, potentially as early as this month. Additionally, the Two Sessions comes to a close today. Traditionally, the Premier would be holding a press conference Q&A at this time, which was typically the second-most-watched event for markets other than the government work report, but it was announced that this would not be held this year.
- **Japan:** Japan's 4Q23 GDP was revised up to 0.1% QoQ sa from the preliminary reading of -0.1%. As a result, Japan has avoided a technical recession. That said, today's reading was weaker than the market consensus of 0.3%. As suggested by earlier capital spending data, solid non-residential investment growth of 2.0% was the main reason for the rebound (vs -0.1% preliminary, 2.4% market consensus). But private consumption remained sluggish, contracting by -0.3% (vs -0.2% preliminary and market consensus), and was the main reason for growth remaining modest. Today's data certainly supports the BoJ's view that the economy remains on a recovery path, but weak private consumption will be a concern for the BoJ as it mulls a change to its policy direction. We therefore see a higher chance of a policy change in April than this month.

## What to look out for: US inflation and China MLF

- China domestic liquidity (11 March)
- Japan PPI (12 March)
- Philippines trade balance (12 March)
- India CPI inflation (12 March)
- US CPI inflation (12 March)
- South Korea unemployment (13 March)
- India trade balance (13 March)
- US MBA mortgage expectations (13 March)
- US retail sales (14 March)
- China MLF (15 March)
- Indonesia trade (15 March)
- Philippines remittances (15 March)

- US industrial production and University of Michigan sentiment (15 March)

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