

## Asia Morning Bites

China fiscal stimulus rumours fail to ignite risk appetite. Taiwan trade data due



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### Global Macro and Markets

- **Global markets:** US 10Y Treasury yields traded between about 4.61% and 4.71% yesterday after returning from vacation with bond prices rallying on the Middle East tensions. The 10Y UST is currently yielding 4.653%. 2Y yields are 4.97%. Fed speakers yesterday didn't add much clarity. Kashkari said that the impact of higher yields on Fed rates was unclear. And Mary Daly said that the neutral rate could be somewhere around 2.5% to 3%, implying that at some stage, rates should decline, though she sounded as if she still felt the Fed had further work to do to control inflation first. The implied effective Fed funds rate for December is pricing in only a 17% probability of a 25bp rate hike currently. US equities certainly don't mind slightly lower rates, and both the S&P 500 and NASDAQ gained a little over 0.5% yesterday. Despite talk of some more fiscal support in China, equities there were mixed. The Hang Seng gained 0.84%, but the CSI 300 fell 0.75%. Increased concern over the possibility of default on offshore borrowing at Country Garden may be weighing more generally. The drop in US yields has clearly been a greater force than the risk aversion trade, and EURUSD has risen back above 1.06 to 1.0609 currently. Other G-10 currencies have also rallied. The JPY, in contrast, was weaker for much of yesterday, though it did recover in late trading, possibly helped by a report that suggested that the Bank of Japan was mulling

raising its fiscal 2023 inflation outlook at the 30/31 October meeting to 3% from the 2.5% July outlook. That in turn might signal a greater willingness to make further adjustments to the yield curve control policy, and in time, to policy rates. Other Asian FX also made gains yesterday. The THB flipped from being the region's weakest currency to the biggest gainer on the day, rallying close to a full percentage point against the USD. The SGD appreciated 0.39%. There were smaller gains elsewhere.

- **G-7 macro:** Yesterday's US NFIB headline index dropped a little further, and is now at 90.8, down from 91.3. If you ignore the downward pandemic spike in 2020, you have to go back a long way (March 2013) to find a weaker reading. For reference, the series low was 81.55 during the global financial crisis, and the high was in 2018 when it hit 108.8. In other words, we are a lot closer to the all-time low than we are to the all-time high. The September PPI index is the main highlight of the G-7 Macro calendar today. The consensus isn't looking for much change to the PPI inflation rates, so they may not be too helpful as a guide to the CPI data due tomorrow. In the early hours of tomorrow (0200 SGT/HKT) we also get FOMC minutes from the last meeting. As ever, these need to be put in the context of the discussion that was happening back then, when bond yields had not risen quite so much, and when the message tended to be more about the need to keep the pressure on inflation, so a little more hawkish perhaps than the recent nuance of Fed speakers.
- **Taiwan:** Trade figures for September will likely show the rate of decline in export growth abating further. This is partly just the effect of previous weakness dropping out of the year-on-year comparisons, though we have also seen some signs of stabilisation in the levels of exports, as the semiconductor cycle shows a little more life than it has been doing.

## What to look out for: FOMC minutes

- South Korea current account balance (11 October)
- Japan machine tool orders (11 October)
- Taiwan trade (11 October)
- US PPI and FOMC minutes (11 October)
- Fed's Bowman and Waller speak (11 October)
- Japan PPI and core machine orders (12 October)
- India CPI inflation (12 October)
- US CPI inflation and initial jobless claims (12 October)
- Fed's Collins and Logan speak (12 October)

- South Korea unemployment (13 October)
- China CPI inflation (13 October)
- Singapore GDP and MAS (13 October)
- US University of Michigan sentiment (13 October)
- Fed's Bostic, Collins and Harker speak (13 October)

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