

Asia Morning Bites

India inflation reading out tonight but the highlight for the week will be US inflation and the Fed policy decision later in the week



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Macro outlook

- **Global Markets:** At times, markets simply see what they want to see in the data to justify the direction they intended to go anyway, and Friday's trading looked a lot like that. US data (on which more below) put in a mixed performance on Friday. On balance, the data still pushed in the direction of moderating inflation, but there were some upside misses (PPI) and some downside (University of Michigan inflation expectations) misses too. Neither of these has all much relevance for this week's CPI data, save to confirm that it will probably also show a moderation, though exactly how much, and what split between headline and core rates remain uncertain. Yet markets had been longing to correct, which is exactly what they did. The S&P500 lost 0.74%, rounding off a poor week, while the NASDAQ lost 0.7%. Chinese stocks finished in better form, still buying into the China reopening story. The CSI rose 0.99% on Friday, the Hang Seng rose 2.32%. US equity futures remain a little downbeat about today's opening prices. US Treasury yields added a little more gloom to the market story, with yields rising, though only by 3.7bp for the 2Y, while the 10Y yield rose 9.6bp taking the yield to 3.578%. EURUSD remains above 1.05, pulling back from just below the 1.06 level on Friday and settling slightly lower. The AUD is a little stronger at 0.6788, the same as Cable at 1.2246, and the JPY is more or less unchanged at 136.71. Most Asian FX

made small gains on Friday, but there aren't many clues as to their direction today. For choice, it's probably looking a bit more negative for Asian FX than positive today.

- **G-7 Macro:** As mentioned above, the news flow out of the US on Friday supported the moderating inflation theme. University of Michigan inflation expectations for one year ahead dropped to 4.6%YoY from 4.9%, against expectations for no change, but the PPI index for November showed producer price inflation dropping less than expected at both headline and core levels, and this was probably what markets zoomed in on when selling Treasuries and stocks on Friday. It's a big week for macro and probably therefore markets this week, with US CPI on Tuesday, and the FOMC Wednesday (3am SGT Thursday), not to mention NFIB and retail sales. UK production and construction data dominate the G-7 calendar today, and while this may have implications for Gilts and sterling, probably won't do too much to alter the broader market picture.
- **India:** November CPI inflation is expected to come in at 6.36%YoY by the Bloomberg consensus, though we think there is a bit of downside risk to that figure (ING f 6.2%YoY). Falling vegetable prices and stable gasoline prices will drive a weak month-on-month increase and help deliver the lower inflation print, which will then be only just above the RBI's 4%+/-2% target and suggests that they may be getting close to a peak in rates with the policy rate in line with projected inflation at 6.25%YoY. Probably one more hike early next year should do it for the RBI.

What to look out for: Inflation reports and central bank meetings later in the week

- Japan PPI inflation (12 December)
- India CPI inflation and industrial production (12 December)
- Australia Westpac consumer confidence (13 December)
- Philippines trade balance (13 December)
- US CPI inflation (13 December)
- South Korea unemployment rate (14 December)
- Japan Tankan survey and industrial production (14 December)
- US MBA mortgage applications and import price index (14 December)
- FOMC policy meeting (15 December)
- New Zealand GDP (15 December)

- Japan trade balance (15 December)
- Australia labor report (15 December)
- China industrial production and retail sales (15 December)
- Indonesia trade balance (15 December)
- BSP policy meeting (15 December)
- Taiwan CBC policy meeting (15 December)
- ECB policy meeting (15 December)
- US retail sales and initial jobless claims (15 December)
- Singapore NODX (16 December)
- Japan Jibun PMI (16 December)
- Eurozone CPI inflation (16 December)

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