

Asia Morning Bites

Interesting day for Asia with Bank of Korea rate meeting plus Indian inflation ahead of FOMC minutes and US PPI inflation tonight



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Macro outlook

- **Global Markets:** The turmoil that threatened to spread across markets from the UK's Gilts market looked marginally less ominous for a while yesterday. 2Y Gilt yields retreated to the tune of 14.9bp, though their 10Y counterparts fell only 3.4bp. 2Y German bond yields also fell 5.7bp and were down 4.1bp in the 10Y Bund. It remains to be seen whether this calm will hold, as Bank of England (BoE) Governor, Andrew Bailey, noted that the BoE Gilt buying programme would still end this Friday. Many pension funds seem to think that this is not long enough to make the necessary adjustments to their funds and there is a lot of speculation that the Friday deadline will have to be extended. US Treasury yields did their own thing yesterday. 10Y US Treasury yields rose 6.6bp to 3.947%, bringing 4% back into play as a near-term target. 2Y US Treasury yields were little changed at 4.31%. The pound came under further selling pressure yesterday, dropping to 1.0975 as of writing. EURUSD has ended up virtually unchanged after a very choppy session in US trading. The AUD is now down to 0.6267 and the JPY is nosing up towards the 145.90 level at which the BoJ intervened in mid-September. It looks like this could be an interesting day. Most of the Asian FX pack lost ground to the USD yesterday, led by the KRW which has risen to 1435, and the THB, which is up to 38.12. The CNY made further small losses, rising to 7.1687. Stock markets

don't yet seem to have woken up to what is going on in bond markets, and there were only small losses in the S&P500 and NASDAQ yesterday. Equity futures are pointing to a small gain at the open.

- **G-7 Macro:** Yesterday's US September small firm business survey (NFIB) rose for a third consecutive month. Most notably, there were slightly lower plans to increase selling prices (51% down from 53% in August and the 65% peak in May). The UK's labour market data released yesterday showed a faster slowdown than had been expected, which won't make the fiscal arithmetic any easier for the UK government, trying to make their tax cut plans add up to something that won't crash the pound or Gilts market. The monthly GDP figures for August in the UK due out today will likely also make for uncomfortable reading. US mortgage applications and PPI numbers ahead of the September CPI release tomorrow as well as the FOMC minutes from the last meeting, will help set the tone for the market for the next 24 hours.
- **China:** China loan growth jumped by almost double from a month ago to CNY247bn. Government bond issuance also jumped. This indicates that government spending will support the GDP growth figure in 3Q22. But fiscal pressure is mounting.
- **India:** September CPI due out later tonight will show inflation pushing higher. The consensus is for a rise to 7.4% from 7.0%. We think there is some upside risk to these figures based on some higher food price data over the month.
- **South Korea:** The Bank of Korea (BoK) holds a rate decision meeting today. Both we and the market expect the BoK to raise its base rate by 50bp, considering the faster-than-expected Fed rate hikes, sticky inflation exceeding 5%, and growing inflation risks from the weak won and rebounding global oil prices. Inflation eased down to 5.8%YoY in September and inflation expectations also came down slightly. But the BoK will be very careful in reading too much into the latest figures as inflation is expected to pick up again in October. The market has already started talking about the possibility of another 50bp hike by the BoK at the next MPC meeting in November. We have to listen carefully to Governor Rhee's comments today, but we think that October CPI is the key for the BoK regarding the next decision. If inflation goes back up to 6%, then another 50bp hike is possible. If not, then they will likely normalize their hiking pace.
- **Japan:** The JPY passed 145.9 this morning and if the authorities step in again, it will be no big surprise. Machinery orders fell in August by -5.8% MoM sa (vs 5.3% in July and -2.8% market consensus). The weakness mainly came from foreign orders (-18.9%), pointing to the slowdown in the global economy. Domestic demand orders rose modestly (1.9%). We think that Japan's economy will stay on a recovery path, boosted by reopening-induced domestic demand.

What to look out for: Inflation reports and the FOMC minutes

- Japan machine orders (12 October)
- India PPI inflation (12 October)
- US PPI inflation (12 October)
- Bank of Korea decision (12 October)
- FOMC minutes (13 October)
- Japan PPI inflation (13 October)
- US CPI inflation and initial jobless claims (13 October)
- China trade balance, CPI and PPI inflation (14 October)
- Korea unemployment (14 October)

- US retail sales and University of Michigan sentiment (14 October)

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