

Asia Morning Bites

The latest Tankan survey beat expectations, but Korea's unemployment rate rose. FOMC meeting later...



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Global Macro and Markets

- **Global markets:** US Treasuries had a mixed response to the stalling inflation figures, with the 2Y yield rising 2.3bp to 4.731% and the 10Y yield falling 3.3bp to 4.201%. EURUSD crept a little higher, rising above 1.08 at one point but settling just below it currently, though it looks as if it wants to have another go at breaking that level. The AUD struggled again yesterday and dropped back to 0.6564 in late trading, giving back all its gains on the day and then some. Cable was steady at 1.2570, despite a big fall in 10Y Gilt yields after weaker wage figures. The JPY rallied again on renewed speculation about next week's BoJ meeting. This seems unrealistic to us. Asian FX markets were otherwise fairly muted. The THB lost almost a per cent, but otherwise, it was a fairly quiet day. US stocks made further small gains on Tuesday. The S&P 500 rose 0.46%, and the NASDAQ rose 0.7%. There were also gains for Chinese stocks. The Hang Seng rose 1.07%, though the CSI 300 made a smaller 0.21% gain.
- **G-7 macro:** On the face of it, the US CPI figures came in close to expectations. Headline inflation dropped 0.1pp to 3.1%, and the core rate was unchanged at 4.0%. However, the headline MoM move was a bit higher than had been expected. 6M annualised core inflation is still edging lower, but the recent run rate for core inflation has been less impressive. The

3m annualised rate is now up to 3.3% from its September low of 2.8% having risen for the past two months. This needs to improve if the markets' recent aggressive rate cut view is to survive. [In his note on the CPI release](#), James Knightley notes that this data won't be enough to satisfy the Fed, so we can expect the Fed statement and Powell's remarks at today's FOMC meeting (0300 SGT/HKT) to reflect this. That could give bond yields a lift and knock EURUSD a bit lower if so. Today's November US PPI release is the main story, along with UK activity and trade figures and Eurozone industrial production.

- **Japan:** The latest Tankan survey showed a more pronounced improvement in overall business sentiment in non-manufacturing, suggesting service-sector-led growth to continue in the coming quarter. The current quarter's activity for all industries should be better than the previous quarter as the Tankan large manufacturing index (12 in 4Q vs 9 in 3Q, 10 market consensus) and non-manufacturing index (30 in 4Q vs 27 in 3Q, market consensus) all rose more than expected. We expect 4Q23 GDP to rebound nicely after a temporary contraction in the third quarter. For the outlook survey, the non-manufacturing companies' index (24 in 4Q vs 21 in 3Q, 25 market consensus) was a bit shy of the market expectation but it still improved from the previous quarter. For manufacturing, the outlook expected the recovery to continue but to weaken (8 in 4Q vs 10 in 3Q, 9 market consensus).
- **South Korea** Import prices declined -8.5% YoY in November (vs -9.9% in October) due to falling oil prices and favourable currency effects. Despite the recent stabilization in gasoline prices and overall inflation, the government has decided to extend its fuel tax cut program until next February. It also plans to cut liquor taxes from January next year. We think consumer prices will cool down to the 2% range by early next year. The jobless rate rose more than expected to 2.8% in November (vs 2.5% in October, 2.6% market consensus). Despite this, the labour market remains solid in our view. And, more importantly, there is a trend in the labour market to shift from services to manufacturing (IT) as the main drive of the growth. Manufacturing employment rebounded (27k) for the first time in five months and scientific & technical activities (+24k) has now gained for three months in a row. Yet, major service sectors – such as whole/retail sales (-22k), and accommodation/food services (-14k) shed jobs. Compared to the beginning of this year, other service jobs such as leisure and social work, are slowing down significantly, thus we believe that the overall service sector activity is losing steam.

What to look out for: US PPI and FOMC meeting

- India trade (13-15 December)
- US PPI (13 December)
- FOMC meeting (14 December)
- Australia labor data (14 December)
- Japan industrial production (14 December)
- Philippines BSP policy (14 December)
- ECB policy (14 December)
- US initial jobless claims (14 December)
- Japan Jibun PMI (15 December)
- Indonesia trade (15 December)
- China retail sales and industrial production (15 December)
- US industrial production (15 December)

Authors

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

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