

Asia Morning Bites

Asian currencies likely to extend gains against the USD as risk sentiment remains solid ahead of the US inflation report



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Macro outlook

- **Global Markets:** US equities made further gains yesterday ahead of the US CPI release later today, which is expected to show a decline in headline inflation thanks to lower crude oil, and hence retail gasoline prices. The risk-on sentiment has also hurt the USD, with EURUSD pushing back above 1.01 to 1.0126, and other G-10 currencies all following suit. In Asia, currencies yesterday made modest gains on the whole against the USD, but have lagged the G-10 moves. So with equity futures suggesting no turn in sentiment just yet, Asian FX will likely continue to strengthen today ahead of the US session. USDCNY is now down to 6.9265, taking the USDCNY 7.0 target off the agenda for the time being. US Treasury yields were slightly higher yesterday, especially at the back end, where a lackluster USD32bn 10Y auction saw yields on 10Y bonds rising almost 5bp to 3.358%.
- **G-7 Macro:** It's all about the US August CPI result tonight. And though the headline inflation rate will most likely decline from July's 8.5%YoY rate, thanks to lower gasoline prices, the core rate is expected to rise 0.3%MoM, and take core inflation up to 6.1% from 5.9%. Markets are likely to balance any headline falls against core rises, so it's too early to be celebrating the end of inflation, as some market participants seem already to be doing. UK labour market data and Germany's ZEW business confidence survey are also on the

calendar.

- **India:** August inflation came in just above the consensus expectation at 7.0% (consensus 6.9%, ING f 7.0%), mainly due to somewhat stronger food price inflation. In any event, with inflation still well above the RBI's target range (2-6%), more rate increases are still likely over the coming 2 meetings before the year end. The repo rate is currently 5.4%. We see rates ending the year at 5.9%.
- **China:** With the yuan under recent weakening pressure, we don't anticipate the PBoC making any further amendments to its 1Y medium term lending facility (1Y MLF) rate today, which will remain at 2.75%.
- **Japan:** Pipeline prices appear to have stabilized in August. Producer price inflation remained unchanged at 9.0% YoY in August (vs 9.4% in June) and import price growth slowed to 21.7%YoY (vs 26.1% in July). Despite the recent weakness in the JPY, the drop in global oil prices has led to price stabilization. But next week's August CPI report is expected to show inflation still accelerating to nearly 3.0%. Despite the recent depreciation of the JPY and looming 3% inflation, we still expect no policy change from the BoJ at its September meeting.

What to look out for: US inflation and China activity data

- Japan PPI (13 September)
- Australia consumer confidence (13 September)
- US CPI inflation (13 September)
- Japan industrial production and core machine orders (14 September)
- Hong Kong PPI and industrial production (14 September)
- US PPI inflation (14 September)
- Japan trade balance (15 September)
- Australia labour market data (15 September)
- US initial jobless claims and retail sales (15 September)
- South Korea unemployment (16 September)
- Singapore NODX (16 September)

- China industrial production, retail sales and fixed asset (16 September)
- US University of Michigan expectations (16 September)

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