

Asia Morning Bites

Japan's Government will formally nominate Kazuo Ueda today as the new Governor of the BoJ. US inflation data will dominate markets today



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Macro and Markets outlook

- **Global Markets:** Market risk sentiment staged a recovery yesterday ahead of today's US inflation figures, so it may not last. The S&P 500 rose 1.14%, while the NASDAQ went up 1.48%. Chinese stocks also improved, with the CSI 300 gaining 0.91%, though the Hang Seng index dropped 0.12%. US Treasury yields took a breather yesterday after recent gains. The 2Y yield was unchanged at 4.517%, while the yield on 10Y bonds dropped back by 3bp to 3.70%. This recovery in sentiment and lower yields will have supported the EUR against the USD, and EURUSD has crept back above 1.07 to 1.0724 currently. Other G-10 currencies followed suit. The AUD has risen back to just below 0.697, Cable has pushed higher to 1.2139, though the JPY lost ground yesterday, rising to just below 133 before settling back at around 132.4. Asian FX was mostly weaker against the USD yesterday, though will likely track yesterday's G-10 moves in early trading. The KRW was the weakest APAC currency yesterday, rising to 1277.
- **G-7 Macro:** Today will be totally dominated by the US CPI release, where the scope for market surprises is high. The consensus expectation is for the headline inflation rate to fall to 6.2% YoY from 6.5% on the back of a 0.5% MoM increase in the index. That itself is

inconsistent, as a 0.5% increase should result in an inflation rate of 6.3% or 6.4%. So something has gone wrong with the consensus numbers. Then there is the core rate, which is expected to fall to 5.5% from 5.7% on a 0.4% MoM increase. At least those numbers stack up. The small firm NFIB survey is also released today but will be buried behind CPI noise.

- **India:** CPI inflation in India rose to 6.52% YoY in January, up from 5.72% - a much larger increase than the consensus had been expecting. The increase totally vindicates the last RBI rate decision and maintenance of the tightening bias. There was no change in the core measures of inflation, which remain above the RBI's upper target bound of 6%. Further tightening at forthcoming meetings looks probable until these core measures fall consistently back below 6%.
- **Japan:** 4Q22 GDP data was disappointing. The economy grew by 0.2% QoQ sa, but was weaker than expected (vs -0.3% downgraded 3Q22 and 0.5% market consensus). We believe that the modest recovery will continue this year, but today's data support the Bank of Japan's argument that the recovery is still fragile and that easy monetary policy is needed. The incoming new governor will find it difficult to start any normalization.

Private consumption (0.5%) led the quarterly growth, but investment (-0.5%) and inventories (-0.5 ppt) partially offset overall growth. We believe that the government's travel subsidy program supported service activity and private consumption, but weaker external demand led the drop in equipment investment. For external components, exports rose 1.4% while imports fell -0.4%, thus net exports contributed 0.3pp to growth. A stronger yen and weaker commodity prices probably worked in favour of improving net export contributions.

What to look out for: US inflation report

- Japan GDP and industrial production (14 February)
- Australia Westpac consumer confidence (14 February)
- US CPI inflation and NFIB small business optimism (14 February)
- Fed's Barkin speaks (14 February)
- Fed's Harker and Williams speak (15 February)
- South Korea unemployment (15 February)
- India trade balance (15 February)
- Indonesia trade balance (15 February)
- US industrial production and retail sales (15 February)

- Japan trade balance (16 February)
- Australia unemployment (16 February)
- Bank Indonesia policy (16 February)
- Bangko Sentral ng Pilipinas policy (16 February)
- US initial jobless claims and housing starts (16 February)
- Fed's Mester speaks (16 February)
- Fed's Bullard and Cook speak (17 February)
- Singapore NODX (17 February)
- Thailand GDP (17 February)
- US import prices (17 February)
- Fed's Mester, Barkin and Bowman speak (17 February)

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