Asia Morning Bites

The MAS tightens policy again, Korean labour data weakens, and China trade and inflation due out later and inexplicable US equity moves. What next? US retail sales take us into the weekend...

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Macro outlook

- **Global Markets**: There are no convincing ways to explain overnight equity moves in the US in the face of the higher-than-expected inflation release for September. The S&P500 and NASDAQ rose respectively 2.6% and 2.23%. But the September US inflation figure, which is detailed here by our US Economist, exceeded expectations on the headline, which dipped only modestly to 8.2% from August's 8.3%, and the core rate rose to 6.6%, from 6.3%, even more than had been expected. So on almost every metric, these figures shout that the Fed will be raising rates faster, taking them higher and leaving them there longer than the market had been anticipating. And that raises the prospects of recession, even a bad recession. Equity futures aren't even registering a substantial reversal today, though I think it would be foolhardy to expect these levels to persist for very long in the face of data like this. Asian markets will probably play catch-up in early trading today, but after that, they might do better to take a more cautious stance ahead of the weekend. US Treasury yields at least responded according to text books. The 2Y yield rose 17.2bp to 4.464%, as futures markets fully priced in a 75bp hike in November, and almost fully priced in another for the December FOMC meeting, with the implied rate for May 2023 now just shy of 5%. 10Y US

Treasury yields did a bit better and may have caught some assistance from the Gilts market, where it sounds as if the mini-budget that did so much damage is likely to be scrapped. 10Y UK Gilt yields fell 23.5bp, and the 30Y Gilt yield tumbled 26.1bp. EURUSD went with the equity story, rather than rates, and finished up at 0.9773. The AUD has clambered back above 0.63 (just). The JPY keeps heading higher and is now at 147.27. USDJPY150 seems entirely reachable in the near term. And like the phoenix, Cable has risen from just under 1.11 this time yesterday to 1.1313 currently. Yesterday was a quiet day for most of the Asian pack, though unusually, the VND took an outsize dip along with the KRW (less unusually). Today, Asian currencies may look a little stronger following overnight G-10 moves, but it seems hard to imagine that these or the equity moves that seem to be propelling confidence can last.

- **G-7 Macro**: After yesterday's excitement, the US September retail sales figure could stir things up a little more. Forecasters are looking for only a 0.2%MoM increase in sales, slightly down from the 0.3% registered in August. And the "core" control group forecast is for a 0.3%MoM rise. This is definitely a figure where good news (i.e. retail sales strength) ought to be "bad" for markets (risk sentiment) as it would imply the Fed has more work to do to slow the economy. But given last night's response to the CPI numbers, I'd have to say that anything is possible. There are a couple of Fed speakers on the agenda today (George and Cook). Their comments are unlikely to waver from the "whatever it takes to bring inflation down" mantra that we have become so used to hearing.
- **China**: We will see CPI and PPI data for September this morning. PPI inflation should be lower than that for CPI due to base effects. Within CPI, we should see that food inflation climbed in September due to adverse weather. The data set should reflect that China does not have the same high inflation issues faced by the US and Europe. We will also closely watch the international trade data released later today. This data is more important than the inflation data. It should indicate how China's export season is doing. Our expectation is that high inflation in the West should limit the growth of exports. And the weak domestic economy, as well as high inflation in the export market, should lead to weak import growth in September.
- **Korea**: Today's data releases deliver another headache to the Bank of Korea. Pipeline prices went up, mainly due to the weak currency while labour data showed signs of a slowdown. The jobless rate rose a bit more than expected to 2.8% in September (vs 2.5% in August, 2.7% market consensus). Labour participation edged up to 64% (vs 63.9% in August) but other details were soft. By industry, manufacturing shed jobs for the first time in four months and construction also lost jobs quite significantly. Service sector employment gained, mainly due to the rise in hotel/restaurants and leisure-related jobs. But other major services, such as whole/retail sales, transportation, and financial cut jobs. By employment type, regular employment, considered a stable form of employment, declined for the first time since April 2021. We expect the jobless rate to climb up to the mid-3% level in the coming months as the reopening effects diminish and economic activity slows.
- Meanwhile, import prices in September rebounded for the first time in three months, mainly due to the weak KRW. Import prices in won terms rose 24.1% YoY in September (vs 22.9% in August). Global commodity prices including crude oil continued to decline but the weak KRW pushed up overall import prices. Import prices in contract currency terms stabilized at 7.5% YoY in September (vs 10.7% in August).
- The Bank of Korea made it clear that they will focus on price stability, so we believe that they will continue to hike, but the pace of rate hikes will be slower due to the labour market cooling and other activity data softening. Based on today's data releases, we maintain our

call that the Bank of Korea will raise rates by 25bp next month. But, the terminal rate might be slightly higher than our current forecast of 3.25%. The possibility of an additional 25bp hike early next year has increased.

- **Singapore**: It has already been a busy day for Singapore with 3Q22 GDP and the Monetary Authority of Singapore (MAS) statement. 3Q GDP surprised on the upside (4.4%YoY) while the MAS tightened monetary policy by re-centring the currency band.

What to look out for: China inflation and trade data plus US sentiment and retail sales figures

- Singapore GDP and MAS statement (14 October)
- China trade balance, CPI and PPI inflation (14 October)
- Korea unemployment (14 October)
- Fed's Cook and George speak (14 October)
- US retail sales and University of Michigan sentiment (14 October)

Author

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com