

## Asia Morning Bites

Australia's labour market report is due out soon. Later today, the ECB meeting and US retail sales numbers should give investors more to ponder after yesterday's upside inflation misses



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### Global Macro and Markets

- **Global markets:** We will start with Treasury yields today since they were most at risk from an upside miss to the inflation numbers, which we got on both the core and headline measures yesterday. But, contrary to everything you thought you knew about how markets worked, yields fell. The 2Y yield dropped by 5.1bp to 4.969%, and the 10Y yield fell by 3.2bp to 4.248%. Those declines in yield have had no impact on major FX rates. EURUSD remains roughly unchanged at about 1.0733 ahead of the ECB decision today, which still hangs in the balance. The AUD is also more or less unchanged at 0.6423, though it did have a look at sub-64 cent levels at one stage yesterday before recovering. Sterling is also about the same at 1.2491, though the JPY continued to nose higher and is now 147.28. In Asian FX, the main standout is the CNY, which is now down to 7.2717, in contrast to expectations for it to push above 7.35 which looked more likely only a few days ago. The PBoC is now using higher CNY funding costs in its battle to prop up the yuan, and right now, it seems to be working. Our end-of-month and quarter 7.25 forecast no longer looks quite so silly. This could change very rapidly though, and we have the China data dump tomorrow, though we are half-expecting this to be a little less negative than some of the recent data releases. The TWD

was dragged stronger by the CNY, as was the SGD. SE Asian FX tended to lose ground yesterday, and the THB propped up the bottom of the table declining 0.34%.

- **G-7 macro:** The US CPI inflation release for August saw upside misses on both the headline inflation rate (3.7%YoY, up from 3.2%, and 3.6% expected) and the month-on-month figure for the core rate ex-food and energy, which rose 0.3% against expectations for a 0.2% rise. That still left core inflation falling to 4.3% which was in line with expectations, but progress in reducing core inflation will only be assisted by base effects for so long before it too will need to see the monthly rate need to drop to 0.1-0.2 to deliver a 2% target rate. James Knightley adds more detail in [this note](#).

It is also the ECB meeting today, and while we are looking for one, final rate hike, the market is totally split, and this decision could almost as easily result in no change. Our FX and rates strategists have put [this cheat sheet](#) together to highlight the potential market scenarios depending on what the ECB does, and more importantly, how it delivers its decision.

We also get the August retail sales numbers for the US out today. The consensus expectation for the headline figure is 0.1%MoM, down from 0.7%MoM in July. We are beginning to see delinquencies on credit cards rising (as well as student loans and mortgages), and the latest consumer credit figures were also softer, so a bit more evidence of a consumer slowdown would vindicate the markets' move to ignore the inflation figures overnight. The control group of spending is expected to decline 0.1% MoM after its 1.0% rise in July. US PPI data for August and weekly jobless claims round out the day.

- **Australia:** August's labour report remains an important piece of data while there remains some lingering doubt about whether or not the Reserve Bank of Australia has already delivered peak cash rates, or, as we suspect, maybe has one last hike left in the chamber to deliver before we can declare "job done". And as ever, the outcome of this report is virtually impossible to call. We tentatively expect some unwinding of recent moves, with some modest job creation in the full-time segment, though this may be offset by some part-time employment declines, to deliver a +15K overall employment gain. This is a bit lower than the consensus +25K call. We are, however, in agreement that this will result in a drop back of the unemployment rate to 3.6% after the jump to 3.7% last month.

## What to look out for: ECB meeting and US retail sales

- Japan core machine orders and industrial production (14 September)
- Australia unemployment (14 September)
- ECB policy meeting (14 September)
- US initial jobless claims, PPI and retail sales (14 September)

- China medium term lending rate (15 September)
- Indonesia trade balance (15 September)
- China retail sales, industrial production (15 September)
- US University of Michigan sentiment (15 September)

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