Asia Morning Bites

Japan's core machine orders blows past market expectations. China 1-yr medium term lending facility rate out later.

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Global Macro and Markets

- **Global Markets:** You go away for 2 weeks, and return to a very different market backdrop. 2Y US Treasury yields declined on Friday, but they are still 4.89%, and the 10Y yield's 6.5bp rally (maybe a response to Iranian missiles raining down on Israel) has still left the yield at 4.53%. Markets are no longer pricing in Fed rate cuts until September, and then not another cut fully even by the end of the year. And the dollar turn hypothesis also seems to have been parked out of sight with EURUSD hovering in the mid-1.06s. This isn't being lost on the other G-10 currencies. Cable is down to 1.2461. The AUD is floundering around at 0.6477, and the JPY is ensconced well above the 150 level at 153.24. Asian FX also looks to be experiencing the dollar's renewed strength. The KRW has lost 0.81% since Friday, taking it to 1375.4. Even the usually solid INR seems to be finding it tough to hold its ground and has gapped up to 83.41. Equity markets had a tough day on Friday The S&P500 and NASDAQ both fell around 1.5%. Chinese stocks were also weak on Friday. The Hang Seng lost 2.18% and the CSI300 was down 0.81%. US equity futures look a bit brighter today.
- **G-7 Macro:** Friday's PPI data didn't do enough to wash away the recent CPI disappointments, and was a relatively non-descript release. On the other hand, the University of Michigan consumer confidence survey was both soft and harboured some

slightly higher inflation expectations figures, which is not a good mix. US March retail sales today come against some pretty weak results in recent months and it has been one of the few alarm bells of the US consumer side. It is expected to show a decent 0.4% MoM gain for the control group.

- **China:** The People's Bank of China (PBOC) decides on its medium-term lending facility rate this morning. After upside surprises to the February key activity data and the March PMI gave reasons for optimism, the weaker-than-expected March credit, trade, and inflation data over the last week indicated that economic conditions continue to support a rate cut. While we continue to believe the economy would benefit from further rate cuts, we expect the MLF rate to be maintained at its current level of 2.5% at today's meeting as currency stabilisation has been a policy priority over the past month. The PBOC has previously hinted that RRR cuts might be preferred over rate cuts, though as lending data has illustrated, the impact of RRR cuts may be less effective than in the past given amid weak borrowing demand.
- **Japan:** Recently we have emphasized that we are optimistic about Japan's cyclical recovery in the near term. Today's core machinery orders data supports our view. Core machinery orders jumped stronger than expected by 7.7% MoM sa in February (vs -1.7% January, 0.8% market consensus). This is quite choppy data monthly, so looking at the underlying trend, the three-month over three-month comparison rebounded to 0.73% 3Mo3M sa in February from -2.73% in January. Details were also encouraging, in that both private (7.0%) and public (12.1%) orders rose. Domestic demand (15.5%) was strong, suggesting strong capital spending in 1H24.
- **South Korea:** The Deputy Prime Minister announced this morning that the government has decided to extend the fuel tax cut program for another two months until June. The government's efforts to curb inflation will continue amid a weaker KRW and higher commodity prices. But, the upside risks seem to grow faster than the downside risks. This will put the Bank of Korea in a difficult position, as this could mean a greater divergence between headline and core inflations. As we mentioned in our BoK preview note. this might push back the BoK's first rate cut from July to August or later.

What to look out for: China 1-yr Medium term lending rate

- Japan core machine orders (15 April)
- China 1-yr Medium-term lending rate (15 April)
- Philippines remittances (15 April)
- US retail sales (15 April)
- India trade (15 April)
- Fed's Logan and Williams speak (15 April)
- South Korea import price index (16 April)
- China GDP, retail sales and industrial production (16 April)
- US housing starts and building permits (16 April)
- Fed's Daly and Jefferson speak (16 April)
- Japan trade (17 April)
- Singapore NODX (17 April)
- US Fed Beige book and MBA mortgage applications (17 April)
- Fed's Powell, Williams and Barkin speak (17 April)
- Australia jobs report (18 April)
- Japan machine tool orders (18 April)

- US initial jobless claims and existing home sales (18 April)
- Fed's Mester, Bowman and Williams speak (18April)
- Japan CPI inflation (19 April)
- Fed's Bostic speaks (19 April)

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