Asia Morning Bites

After all the hype - the US inflation miss doesn't cause too much upset in markets. Korean Jan unemployment rate down and PBoC later. Retail sales out from the US too

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Macro and markets

- **Global Markets:** The disappointingly high January CPI numbers did less damage to markets than you might have expected. Yes, 2Y US Treasury yields did push up to 4.615%, rising 9.8bp on the day. But the yield on 10Y US Treasuries only rose 4.2bp to 3.743%, which was muted (all things considered). James Knightley dissects the numbers in this note. Equity markets were also fairly relaxed about the inflation figures, maybe taking the view that this really is just a blip on the road to lower inflation and eventually lower rates – despite the usual "higher for longer" rumblings from various Fed speakers yesterday. The S&P500 ended virtually unchanged on the day, and the NASDAQ actually rose 0.57%. There was quite a lot of volatility in currency markets. EURUSD traded up to 1.0803 at one stage, and as low as 1.0713, but ended just slightly higher at 1.0737. Other G-10 currencies, (AUD and GBP) were also both whippy, but on balance, slightly stronger vs the USD over the last 24 hours. The JPY continues to steer its own path and has drifted higher to reach almost 133 currently. Other Asian FX has been mixed, with the KRW registering a small (0.63%) gain at one end of the pack, and the PHP, dropping 0.15% at the other. Cautious optimism in markets, if it persists, may suggest a slightly positive day for Asian fx today.

- **G-7 Macro:** The details of the US CPI release were, in some senses, not that surprising. The MoM 0.5% gain in the headline and 0.4% gain in the core were all consensus views, though the year-on-year inflation rates were higher for both measures, something we touched on in our note yesterday in terms of the inconsistency with the consensus numbers. So it may have been that we were not alone in giving little weight to the YoY consensus view, which may be why markets seemed so ambivalent about it. One figure that may not get as much attention as it perhaps deserves, is the real hourly earnings numbers, which are a synthesis of these CPI figures and the hourly earnings data released with the labour report. This now shows real earnings growth falling at a 1.8% YoY pace, a bit lower than the 1.6% rate of decline for December. Related to earnings strength, retail sales due out today in the US are slated to bounce after the horrible December figures. Auto sales are likely to help lift the figure. A small bounce in January industrial production is also on the cards.
- **China:** The PBoC will announce its 1Y MLF rate decision today. We expect them to keep the rate at 2.75% as the economy is recovering and the central bank will want to wait and see how the strong loan growth in January will transmit to business and investment activity. From recent open market operations, it seems that the central bank is stabilising interest rates via active liquidity management. This is another sign that the central bank will stay put this month.
- **South Korea**: The jobless rate in January fell unexpectedly to 2.9% (vs revised 3.1% in December, 3.3% consensus). This could have occurred for two reasons - severe weather possibly prevented workers from accessing the job market and also, the Lunar New Year holidays overlapped during the survey period. Consequently, due to these idiosyncratic factors, we don't actually think labour conditions improved in January after all. The details of the data also were pretty weak. Manufacturing employment fell sharply (-67K) for the fifth straight month, with a total of -149K hiring cuts since September 2022. Another major industry, construction (-5K), has shed jobs for three months in a row. The service sector modestly added jobs (36k) so it seems that this sector continues to hold up relatively well.

  Korean import prices fell for the third straight month in January (-2.3% MoM, nsa). Global commodity prices rose but currency effects dominated the decline in import prices. The recent cooling of import prices is expected to help ease consumer price inflation in the coming months. On the other hand, consumer prices are expected to slow down only gradually in the first quarter, as the fallout from last year's high import prices will come early this year after a time lag.

- **Singapore:** Finance Minister Wong announced that he expects a "slight deficit" of 0.1% of GDP for the 2023 budget (from 0.3% in 2022). Wong also indicated that the fiscal authorities would be extending a support package for lower-income households to cope with the high cost of living as inflation should remain high. Wong also noted that growth could be challenged as trade slows amidst a global downturn and as tensions between global superpowers rise. Elevated inflation coupled with slowing growth mean that the Monetary Authority of Singapore (MAS) will have to strike a balance between remaining hawkish but at the same time mindful of Singapore's export competitiveness.
- **Indonesia:** Indonesia is planning to ask exporters to keep a portion of export proceeds onshore for a period of 3 months to a year in order to bolster the domestic supply of dollars. Details on this regulation have yet to be released. The move is being deployed to provide support for the IDR but the implementation of such a measure may still lead to increased volatility as this could be viewed as a form of capital control.

What to look out for: US retail sales

- 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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