Asia Morning Bites

Prabowo comes out on top in Indonesia's elections. Japan falls back into technical recession while Australia publishes a weak labour report. There is a BSP decision later today

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Global macro and markets

- **Global markets:** US Treasury yields gave back some of their post-CPI gains yesterday, helped by some soothing comments from Treasury Secretary Yellen and the Fed's Austan Goolsbee. 2Y UST yields fell 8.6bp to 4.571% while their 10Y counterparts fell back to 4.25%. US stocks liked the direction of travel for Treasury yields and rallied. The S&P 500 rose 0.96% and the NASDAQ rose 1.3%. EURUSD moved fractionally higher to 1.0730 and the AUD has made it back to 65 cents, though G-10 currencies overall haven't moved much. With China still out on holiday, there hasn't been much going on in Asian FX markets, though the THB lost more than a per cent yesterday against the USD, rising to 36.087.
- **G-7 macro:** UK inflation wasn't quite as bad yesterday as had been expected, and both the core and headline measures of inflation were unchanged at 5.1% and 4.0% YoY respectively. There was also some better-than-expected December industrial production data for the Eurozone, along with some slightly more positive employment data. The focus today will shift to the US retail sales numbers for January. There is also preliminary 4Q23 GDP data from the UK. The consensus expectation of a 0.1% QoQ GDP decline would put the UK into a technical recession unless the -0.1% 3Q23 figure is revised up.

- **Japan:** Japan's 4Q23 GDP unexpectedly declined by 0.1% QoQ (vs -0.7% 3Q23, 0.2% market consensus). Weak domestic demand dragged down overall growth. Private consumption and business spending all contracted for a second quarter (-0.2% and -0.1%, respectively). Net exports contributed 0.2 pp to the QoQ growth total. Monthly activity data suggested weak consumption and investment in 4Q23, but the GDP outcome was softer than expected. Japan's economy has now slipped into a technical recession. Yesterday, we wrote that if GDP came out weaker than expected, it would complicate the BoJ's rate hike options, especially with the JPY hovering around the psychological 150 level. The market's expectations for a March/April rate hike will likely die down. We maintain our BoJ call for a June rate hike but with the growing possibility of delaying this to 3Q24. Exports show a continued recovery on the back of solid demand in semiconductors and vehicles while survey outcomes signal an optimistic outlook for the current quarter. Inflation is also slowly easing, which, combined with another year of solid wage growth means that private consumption is likely to rebound. If so, we continue to believe that the BoJ will deliver its first rate hike in June.
- **Australia:** The January labour report was unambiguously weak. Full-time employment only rose 11.1K, while part-time employment fell 10.6K for an overall employment increase of just 500 jobs. The unemployment rate ticked up to 4.1% from 3.9%. Labour participation was unchanged. Next week's 4Q23 wage-price inflation data will tell us if the loosening of the labour market is beginning to feed through to softer wage growth yet. This data will firm market expectations that the Reserve Bank of Australia has stopped hiking rates and that the next move in rates will be down.
- **Indonesia:** Unofficial quick count polls point to a win by Defence Secretary Prabowo, mirroring the polls conducted in the runup to the elections. Prabowo has declared victory although the two other presidential candidates have yet to concede indicating that they will wait for the official results. A clear and credible result will be supportive for markets. Meanwhile, Indonesia also reports trade figures today with the market consensus pointing to a modest $2.8bn surplus, down from $3.3bn in the previous month as imports are set to rebound.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) met yesterday to decide on policy with the decision embargoed for release today. We do not expect any changes to the policy stance. However, we will be watching for any major adjustments to the risk-adjusted inflation forecast of the central bank. The last forecast showed inflation settling at 4.2% this year and a dip below 4% could change the outlook on rates.

What to look out for: BSP decision and Indonesia trade

- Japan GDP and industrial production (15 February)
- Singapore GDP revision (15 February)
- Australia labor report (15 February)
- Indonesia trade balance (15 February)
- Philippines BSP meeting (15 February)
- US retail sales and initial jobless claims (15 February)
- Fed's Waller, Bostic and Barr speak (16 February)
- South Korea unemployment (16 February)
- Singapore NODX (16 February)
- US housing starts and building permits (16 February)
- Fed's Daly speaks (17 February)

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