Asia Morning Bites

Markets rally on a return to stability in the banking sector, despite the higher US inflation numbers. Activity data for China will be released this morning. Later today, the US will report PPI inflation and retail sales.

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Global Macro and Markets

- **Global Markets:** It is not entirely clear what equity markets found to cheer about yesterday after the higher-than-predicted inflation data (see below), but they did nonetheless. The S&P 500 rose 1.65% and the NASDAQ rose 2.14%. Perhaps the seeming return of stability in the banking sector is worth more of a relief rally than the anxiety of higher inflation – especially coupled with the sense that 50bp hikes at this month's FOMC meeting look relatively unlikely now. Still, shorter tenor Treasury yields rose sharply, reversing some of their earlier declines, and 2Y yields shot up 27.4bp to 4.25%, while yields on the 10Y Treasury rose a more sedate but still meaningful 11.6bp to 3.689% - still feeling a bit low relative to Fed funds expectations. EURUSD had quite a ride up and down on the day but managed a net rise from this time yesterday to 1.0729 currently. The AUD also managed some small gains, while the GBP was flat to weaker, and the JPY lost ground steadily to the USD to trade at 134.46 currently. Most of the Asia pack was somewhat weaker vs the USD yesterday, with the KRW also losing about 0.68% to 1310.55, and the INR also weaker (82.49).

- **G-7 Macro:** The figure everyone was fixated on yesterday was the core February CPI print, and this rose a more-than-expected 0.5% MoM to leave core inflation just 0.1pp lower at 5.5% YoY. Headline inflation fell to 6.0% from 6.4% on a similar month-on-month gain. See this note from James Knightley for more details. US PPI data for February due today will give further insight into pipeline inflation strength. Retail sales is also due and a small decline (-0.4%) is predicted after last month's 3.0% MoM surge.
- **China**: Activity data should show a stronger recovery of retail sales than industrial production. The holiday factor is in play for sales, but it also reflects the fact that the prospect for exports is not optimistic. Our focus today will be on fixed-asset investments. The two things we will look out for are how strong infrastructure investments are, given our concern about high levels of local government debt and also whether there is any recovery of real estate investments in the first two months of the year.
- **South Korea**: February's labour report showed that the labour market is still relatively well buoyed despite high interest rates and sluggish exports. But we are careful not to read too much into the headline numbers as most of the job growth was driven by government policy, not the private sector. The unemployment rate unexpectedly dropped to 2.6% in February (vs 3.0% market consensus) from 2.9% in January. And the labour participation rate improved as well to 64.2% in Feb (vs 63.8% in Jan). Health & social work jobs gained the most (109K). Considering the normalization of the COVID situation, we think that most of the job growth comes from social welfare projects driven by the government. Government social work programs usually offer contracts of less than one year, which showed in the large jump in temporary employment gains (252K). The private sector also made some improvements, but these were at a slower pace. Manufacturing added a mere 1K jobs, after falling for six months (shed 149K jobs in total during the past six months) while transportation gained 28K jobs for the first time in seven months (shed 100K jobs in total during the past seven months). We think it is too early to say that private-sector employment is set to recover from now on. And we believe that the Bank of Korea will also focus on the quality of employment rather than just the headline figures. Thus, we maintain our BoK call of no policy action in April.
- **Indonesia:** Trade data for February will be reported today. We are expecting recent trends in trade data to hold with exports possibly expanding by close to 5%YoY and the overall trade balance remaining in surplus. However given moderating prices for Indonesia's export commodities complicated by softer global demand, we should see the trade surplus come in at around $3.3bn, much lower than the record highs of $7.5bn. A narrowing trade surplus points to less support for the IDR and this could mean that the currency may face depreciation pressure in the near term.

What to look out for: China activity data and US retail sales

- South Korea unemployment (15 March)
- China 1-yr medium term lending rate, retail sales, industrial production (15 March)
- Indonesia trade balance (15 March)
- India trade balance (15 March)

- US PPI inflation and retail sales (15 March)
- New Zealand GDP (16 March)
- Japan trade balance, industrial production and core machine orders (16 March)
- Australia unemployment (16 March)
- Bank Indonesia policy (16 March)
- Hong Kong unemployment (16 March)
- US initial jobless claims and housing starts (16 March)
- ECB policy meeting (16 March)
- Singapore NODX (17 March)
- Malaysia trade balance (17 March)
- US industrial production and Univ of Michigan sentiment (17 March)

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