Asia Morning Bites

Japan's 3Q23 GDP contracts sharply; Australian wage growth comes in higher than expected. China data deluge to come later, as well as Presidents Xi and Biden meeting

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Global Macro and Markets

- **Global markets:** Lower than expected US October headline and core inflation prints (see more below) sent bond yields tumbling again last night. 2Y US Treasury yields fell just under 20bp to 4.836%, while yields on 10Y US Treasuries fell 19.3bp to 4.447%, more cleanly breaking the 4.50% support that was threatened recently. Does this line up further downside? Our Head of Rates Strategy, Padhraic Garvey, sees the direction from here for the 10Y as a slow drift lower in yields, with no support until about 4%, though he feels it may take some time to reach and could be a bumpy journey along the way. He sees a clearer direct route lower for 2Y yields. The slump in bond yields has hit the USD quite hard. EURUSD is now 1.0882. This time yesterday, it was 1.07 exactly. Quite a jump. All of the G-10 currencies have taken a lift from the decline in US bond yields. The JPY has fallen too, though remains above 150 at 150.40, not helped by this morning's GDP release (see below). Asian currencies are also benefiting from the dollar's weakness. The CNY has dropped all the way back to 7.2528 from about 7.29 yesterday. And the SGD has dropped to 1.3486. The rest of the Asia pack will play catch-up this morning. Equities are loving the lower bond yield environment. The S&P 500 rose 1.91% yesterday and the NASDAQ rose 2.37%. Chinese stocks were roughly flat yesterday, but depending on how the activity data due later come in, they could have a stronger day today.

- **G-7 macro:** The US October CPI index did not rise from September, which resulted in the inflation rate dropping from 3.7% to 3.2% YoY. More importantly, some might argue, the core rate of inflation also came in lower than expected. The core CPI index rose only 0.2% MoM, taking the inflation rate to 4.0% YoY, down from 4.1%. Our US economist, James Knightley, believes there is a lot more of this sort of low inflation data to come, and expects 2% inflation by the middle of next year, enabling the Fed to start reversing some of its tightening. Today, we get activity data for the US in the form of retail sales. It has been pretty strong up until now, but forecasters are pencilling in some much lower numbers today – partly gasoline price effects – but the control group forecast of 0.2% MoM would also be a fair bit lower than recent trends. US October PPI inflation is also due. The UK also releases inflation data today. The consensus forecast is a big drop from 6.7% YoY in September to 4.7% in October.
- **China:** The deluge of activity data commences at 10:00 HKT/SGT, following on from what is likely to be a no-change decision on the 1Y MLF. Most of the attention will be focussed on the retail sales figures, which is where most hopes for an economic pickup are centred. The consensus estimate is for year-on-year sales growth of 7% in October, up from 5.5% in September. The year-to-date growth figure is not expected to increase as much. Industrial production, property investment and property sales are not expected to show much improvement, though some of these could edge marginally higher. We also have meetings in China between US President Biden and China's president Xi today. It feels as if both sides are fumbling for some slightly better relations, so let's see what happens. Expectations for something concrete and meaningful are, however, quite low.
- **Japan**: 3Q23 GDP out this morning came in much worse than the small decline that was expected. The QoQ (saar) growth rate was -2.1%, compared to expectations for a 0.5% decline. Net exports did swing from a 1.8% pp contribution to growth in 2Q to a 0.1pp drag. But most of the miss in the consensus forecast came from weaker-than-expected domestic demand items, such as consumer spending, business investment and inventory accumulation. That mix of data doesn't help arguments for further changes in BoJ policy near-term, though we see this as a fleeting aberration in an otherwise positive growth environment led by the service sector.
- **Australia**: The wage price index for 3Q23 showed wages rising at a 4.0% YoY pace, up from 3.6% in 2Q23. The consensus had expected wage growth of 3.9% YoY. While higher wage inflation undermines the view that the RBA has already taken their last hike this cycle, we believe that anything at or below 4% wage growth can be consistent with the RBA's inflation target of 2-3%, assuming a trend rate of productivity growth of close to 1 per cent. So this isn't cause for too much alarm. This is also very historical data and will lag most other economic developments. So the RBA should probably not react too much to this release.
- **Indonesia:** October trade data will be reported today. We expect both exports and imports to remain in contraction, leading to a narrowing of the trade surplus to roughly $3bn. The September trade surplus hit $3.4bn. A narrower trade surplus suggests less support for the IDR, which is one of the key reasons Bank Indonesia (BI) was forced to hike at its last meeting to support the currency. With the surplus narrowing further, BI will likely consider further rate hikes in the near term.

What to look out for: China activity data

- Australia wage price index (15 November)
- China data deluge (15 November)
- Indonesia trade balance (15 November)
- India trade (15 November)
- US retail sales and PPI (15 November)
- Japan trade balance (16 November)
- Australia labour report (16 November)
- Philippines BSP policy (16 November)
- US initial jobless claims and industrial production (16 November)
- Singapore NODX (17 November)
- US building permits and housing starts (17 November)

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