

## Asia Morning Bites

China MLF decision and Indonesian trade are Asia's highlights on a quiet day for the G-7 as the US is on holiday. The JPY and JGBs remain in the spotlight ahead of Wednesday's Bank of Japan meeting



## Asia Morning Bites

Source: shutterstock

### Macro outlook

- **Global Markets:** US stocks made further gains on Friday, though on a relatively modest scale as the boost from low inflation data earlier in the week began to fade. Some of the zing also went out of the bond market too. 2Y US Treasuries, which had looked overbought at levels below the lower bound of the Fed funds rate (4.25%), saw yields rising 8.7bp, reversing most of Thursday's decline. Yields on the 10Y US Treasury rose 6.4bp to just over 3.50%. It's a public holiday in the US today so markets may be a little uninspired today. But there is still some room to close the gap between the implied peak Fed funds rate (currently 4.92%) and 5.0% (ING f) or 5.0%+ (consensus Fed view), and this gap *will* probably be closed, even if you think the Fed will pivot later this year. Given some fairly extreme speculative positioning (commitment of traders' report) this raises the possibility of some tactical positioning, even if strategically, you consider the broader move in yields from here to be lower. EURUSD drifted a bit lower on Friday but remains above 1.08. Most of the rest of the G-10 pack is pretty steady, the exception being the JPY, which has been getting a lot of support from investors betting on a change in policy at Wednesday's meeting. Practically none of the consensus of forecasters thinks the BoJ will actually move, but no one will want

to miss out by being on the wrong side of any surprise on either yield curve control or policy rates. 10Y JGB yields remain above 0.50%. The rest of the Asian FX pack made solid gains on Friday, catching up with the G-10's moves the day before. The IDR led the charge, rising 1.24%, followed by the THB (1.16%) and PHP (0.84%).

- **G-7 Macro:** There is nothing of much interest on the G-7 macro calendar today.
- **China:** The PBoC will announce its 1Y Medium Lending Facility (MLF) policy rate decision today. The consensus is for a pause at 2.75%. There could, however, be an extra liquidity injection on 1Y MLF volumes. One reason is that the Chinese New Year holiday is coming and liquidity is usually tight before this. But this is not certain, as the PBoC has already been injecting liquidity to cover the holiday period through open market operations. Another reason is that the PBoC could inject extra liquidity via the MLF at the beginning of the year rather than cutting the required reserve ratio to support what is usually strong loan growth in the first quarter. The market should perceive more liquidity injections as supportive measures for economic growth.
- **Indonesia:** Trade data will be released on Monday. The market consensus points to a second straight month of contraction for imports as energy imports slide after global energy prices moderate. Exports are likely to remain in expansion but settle at 7.4%YoY, resulting in a trade surplus of roughly \$4bn, much lower than the high of \$7.5bn recorded in 2022. Smaller trade surpluses suggest that the IDR may lose some support in 2023.

## What to look out for: China activity data

- Japan PPI inflation (16 January)
- China medium term lending facility (16 January)
- Indonesia trade balance (16 January)
- Philippines remittances (16 January)
- Australia consumer confidence (17 January)
- China GDP, retail sales and industrial production (17 January)
- Singapore NODX (17 January)
- Japan core machine orders and industrial production (18 January)
- BoJ policy meeting (18 January)
- Taiwan GDP (18 January)

- US retail sales, PPI, industrial production and MBA mortgage applications (18 January)
- Japan trade balance (19 January)
- Australia employment change (19 January)
- Malaysia BNM policy meeting (19 January)
- Bank Indonesia policy meeting (19 January)
- US initial jobless claims and housing starts (19 January)
- South Korea PPI inflation (20 January)
- Japan CPI inflation (20 January)
- US existing home sales (20 January)

## Author

### Nicholas Mapa

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

### Iris Pang

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)