

Asia Morning Bites

Asian markets likely to be cautious ahead of tonight's FOMC



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Macro outlook

- **Global:** Ahead of the FOMC meeting, which will no doubt dominate news tomorrow morning in Asia, the main “global” headline today is the working from home directive in Shanghai. This is not a “lockdown” in the strict sense of the word, but it can only be regarded as negative for consumer demand as it reduces people flows in the city and other cities where similar directives are being issued. Our main concern at this stage is that Covid cases will be found in the Zhoushan port, China's [\(the world's\)](#) biggest, resulting in further supply disruptions to global trade. Realistically, we should probably be prepared for some more weeks if not months of this sort of news as Omicron works its way through China. The recent increase in daily cases and official reactions to combat this is already weighing on commodity prices after their recent surge.
- The other China-related “global story” is the return of the yuan as a settlement currency for Saudi oil trade. We don’t have a lot of colour on this yet, and this subject does rear up from time to time, but it adds to the general tone and has helped the CNH to stabilise after its recent weakness. This could also provide a bit more support to other Asian FX while it lasts. Also relevant for commodity prices, there seems to be a bit more promise of an Iran nuclear

deal that could bring Iranian oil supply back into the market after Russia was apparently provided with some assurances from the US about its trade with Iran. Today, Russia is due to make \$ debt payments and Fitch has said that if they make payment in RUB, they will be in default.

With the exception of US equity markets, which regained some lost ground after recent losses, markets were fairly quiet yesterday ahead of the FOMC. The S&P was up just over 2% and the NASDAQ up just under 3%. EURUSD is a little higher at 1.0960, but again failed to hold above 1.10. The AUDUSD is still hovering around 0.72, and other Asian FX had another torrid day yesterday led by the same currencies as the day before, KRW, TWD, JPY, and THB. In bond space, some very slight steepening resulted from a small decline in 2Y US treasury yields and a similarly minuscule increase in yields on the 10Y, which now yield 2.144%.

- **G-7 Macro:** The main release from the G-7 today is the US February advance retail sales figure. After an outsized 3.8%MoM increase in January, the consensus is looking for this to pull back sharply in February, though the spread of forecasts is huge, and there may not be much value in the consensus number, with a surprise outcome in either direction quite possible.
- **Korea:** The unemployment rate in February plunged to 2.7% (vs. 3.6% in January), which was significantly lower than the market consensus of 3.6%. As the government continued to loosen its social distancing measures, it will have added new jobs in services. In addition, due to the surge of Omicron, temporary hiring in public administration and health/social work increased significantly, with a negative payback likely in the coming months.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) released January remittance data overnight which showed a 2.5% gain over the same period last year. January's growth slipped below market expectations and also a slowdown from the previous month. Overseas Filipinos sent home \$2.6 bn, offering a steady supply of foreign currency. However, this may not be enough to offset the bloating trade deficit. Thus the current account will likely stay in the red and the currency will remain under pressure in the near term.

What to look out for: Fed policy meeting and geopolitical developments

- Korea labor market report (16 March)
- Japan trade balance and industrial production (16 March)
- US Retail sales (16 March)
- Fed policy meeting (17 March)
- Australia labor market (17 March)
- Singapore NODX (17 March)
- Taiwan central bank policy meeting (17 March)
- Bank Indonesia policy meeting (17 March)
- US initial jobless claims, industrial production (17 March)
- Japan CPI inflation (18 March)
- Malaysia trade balance (18 March)

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