Asia Morning Bites

Diminishing pipeline price pressures in the US, but heightened geopolitical tensions in Europe after the Poland explosion. Australian 3Q22 wage price index comes in slightly stronger than expected

Source: shutterstock

Macro outlook

- **Global Markets**: US October PPI data provided another indication that inflation in the US has peaked (see more in Macro section below and also linked note here) and this mostly reverberated through markets as you'd expect, with stocks gaining , bond yields declining, and the dollar weakening. As of writing, the S&P500 is up 0.63% and the NASDAQ up 1.44%. The market reaction might have been even greater, but for reports of an explosion in Poland close to the Ukraine border which it is claimed was caused by a Russian missile. NATO allies are expressing their solidarity with Poland, but whether this will lead to any concrete change on the ground remains to be seen. Markets have tempered their enthusiasm accordingly. 2Y US Treasury yields are down 5.1bp and the 10Y yield is down more like 8bp to 3.77%. It's all very well saying that the Fed doesn't want to see financial conditions ease like this, but the Fed can't fight the reality of the data, and no, that doesn't mean it will have to tighten more to achieve its ends. It means it is on the right track. In the end, EURUSD gave up some of its early gains and hasn't moved far from where we were at this time yesterday, currently 1.0350. The AUD has pushed up to 0.6762, Cable is back to 1.1869, though was above 1.20 at one point. And the JPY is comfortably below 140 at 138.80. Of the other Asian currencies, the MYR has topped the billing ahead of this Saturday's General Election, with a 1.35% gain in the last trading session, though high-beta currencies like the THB and KRW have also made strong gains. The CNY has held firm at 7.0455, slightly stronger than the majority of the day before.

- **G-7 Macro**: As mentioned, the US October PPI release was the main market moving event yesterday, and although commentators will focus on the year-on-year rate falling to 8.0% from 8.4% (core fell from 7.1% to 6.7%) what encourages us more is the weak monthly increase. The final demand PPI rose only 0.2%MoM, consistent over a full year with a PPI inflation rate of only about 2.5%. The core index didn't increase at all. There were also revisions downward to the prior month's data. The Fed are unlikely to acknowledge the progress that is being made so quickly, and we don't think they will change their tune much. But it is worth remembering, that forward guidance doesn't tell you what the Fed is going to do, merely what they would like markets to believe. The two can be very different. Germany's ZEW survey expectations component bounced strongly in November from -59.2 to -36.7. This takes it from "awful" to merely "very bad". Europe also had experienced a slight improvement in their September trade balance, though it remains deep in deficit territory. More inflation data is due today, this time in the UK, where inflation has a direct fiscal cost to the government due to index-linking of pensions. Tomorrow, we get the UK government's new tax and spending plans, and it is rumoured that the triple lock on pensions will be retained. US retail sales data is also due. A strong 1.0%MoM gain is predicted by the consensus of analysts, reversing the flat reading from the previous month, though the control group of spending is forecast to increase by much less.
- **Australia:** The 3Q22 wage price index rose by 1.0%QoQ, slightly more than the 0.9% QoQ expectation, and has lifted the annual rate of wage growth to 3.1% YoY (2.6% in 2Q22). We do not think this will have any material impact on the Reserve Bank of Australia's (RBA) rate setting plans. The RBA appear to have swapped data-dependent monetary policy for "state-dependent" policy, and now that they believe rates are mildly restrictive, it will take a lot more than this to get them to revert back to 50bp rate hikes. The next few meetings should see rates raised by 25bp. We see the peak for the cash rate target at 3.6% early next year.
- **China:** Positive outcomes like trade and investment are good not only for the Chinese economy to grow but also for their trade partners, e.g. Australia and Korea. But the potential economic benefits could be clouded by politics. It is still uncertain how the economic benefits will play out after the G20 meeting. We have seen China choosing to abstain from a vote condemning Russia's aggression against Ukraine. This indicates the position of China on the Russia-Ukraine war and on its own geopolitics.

What to look out for: Fed speakers and geopolitical tension

- Japan core machine orders (16 November)
- Australia Westpac leading index and wage price index (16 November)
- Fed's Barr and Williams speak (16 November)
- US retail sales (16 November)
- Japan trade balance (17 November)
- Australia labor data (17 November)
- Singapore NODX (17 November)
- Malaysia trade (17 November)
- Bank Indonesia policy meeting (17 November)

- Bangko Sentral ng Pilipinas policy meeting (17 November)
- US housing starts and initial jobless claims (17 November)
- Japan CPI inflation (18 November)
- US existing home sales (18 November)

Author

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com