Asia Morning Bites

China data dump the main highlight for Friday

Source: shutterstock

Macro outlook

- **Global Markets**: US stocks did not follow through on their Wednesday bounce, and stock futures for once were an unreliable guide to the opening price. The S&P opened down on the previous close and despite a couple of attempts to rally, it was a fairly clear downtrend for most of the session, leaving it 1.13% down from the previous day to sit on recent lows. If they are to be believed, then equity futures suggest we will break lower today, which could then see the market look to re-test the June and July lows. The NASDAQ was down 1.43%. Bond yields continued their upward march, with the 2Y yield rising 7.7bp to 3.865%. This time, 10Y yields also followed, but as usual, by rather less, rising 4.4bp to 3.449%. EURUSD bounced around yesterday, but showed little overall direction, currently trading at 0,9989, but with an intraday low of 0.9956 and an intraday high of 1.0018. The AUD has slipped below 0.67 despite a nondescript labour report on Thursday, and Cable slid steadily on Thursday to reach the mid-1.14s. The JPY rally also seems to have run out of steam, as was widely expected, and has risen back to 143.36, giving it just a small buffer between the 145 level that seems to be the current line in the sand for the Bank of Japan. There was widespread weakness across the Asian FX pack on Thursday, and this will probably continue into the weekend. The CNY led the weakness, coming within sniffing distance of USDCNY7.0 even as the PBoC left the 1Y MLF rate unchanged yesterday. We expect this USDCNY level to be breached, probably sooner than later.

- **G-7 Macro**: US Retail sales for August were rather mixed, with the headline 0.3%MoM gains driven mainly by auto sales, while the control group, which gives the least volatile readings, was flat on the month. James Knightley writes about these numbers here. US industrial production for August was slightly softer than expected too, falling 0.2%MoM against expectations for no change. See here for more details on these numbers and why we see further weakness ahead. Today's main release is the US University of Michigan consumer sentiment survey for September. Consensus is forecasting a slight improvement to 60 from 58.2, though this would still be a very weak reading.

- **South Korea**: The jobless rate for August unexpectedly fell to its historical low of 2.5% beating the market consensus of 3.0% and last month's 2.9% reading. Labour market participation declined to 63.9% (vs 64.1% in July), seemingly due to unfavourable weather conditions. Manufacturing employment has now increased for three months in a row and services employment was also solid, boosted by reopening and holiday effects. We expect the unemployment rate to rise again to 3% in the coming months but the relatively tight labour market will likely continue for a while.

  In a separate report, import prices fell for the second consecutive month in August (-0.9% MoM NSA) mainly due to a drop in global oil prices. We think that global oil prices are a more dominant factor determining import prices than the KRW currently. As long as global commodity prices remain stable, then import price inflation should slow in the months ahead. Data released today will support a 25bp hike by the Bank of Korea (BoK) in October. There is a growing opinion that the BoK may take another "big step" in October to catch up with faster rate hikes by the US Fed and to mitigate recent currency depreciation. However, we believe the BoK will take "normal" steps due to more downside risks to growth and signs that it has passed the high in inflation.

- **Singapore**: Singapore's August non-oil domestic exports (NODX) surprised on the upside, rising 11.4% YoY vs the 8.3% estimate and benefiting from a favorable base. NODX, however, contracted from the previous month (-3.9%) weighed down by the slowdown in electronics, which fell by 4.5% YoY. Pharmaceuticals posted a 68.8% YoY gain but was entirely due to base effects and was not a major driver of the headline result. Exports to China fell sharply in July and this decline extended to August (-18.2%). We expect NODX to moderate further in the coming months as global growth slows.

What to look out for: China activity data

- South Korea unemployment (16 September)

- Singapore NODX (16 September)

- China industrial production, retail sales and fixed asset (16 September)

- US University of Michigan expectations (16 September)

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