

Asia Morning Bites

Asian markets are buoyed by the prospects of larger than previously expected Fed cuts this week. Though Chinese data over the weekend was again soft



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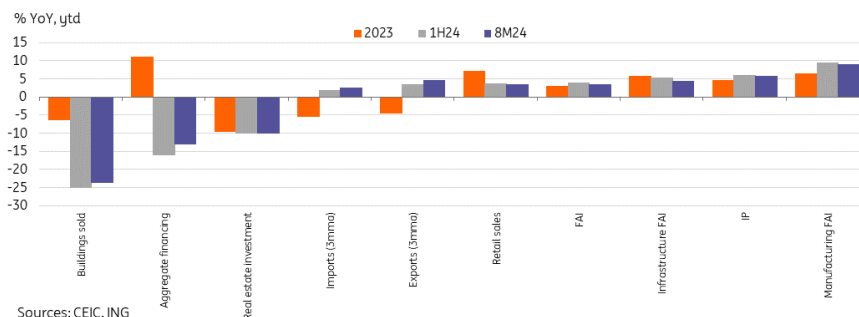
Global Macro and Markets

- **Global Markets:** There was a large swing in Fed rate cut expectations at the end of last week. This was prompted by a former Fed Governor suggesting that a 50bp cut would have been his preferred choice, and one or two other current Fed members have also sounded less cautious about rate cutting recently. Currently, the market is pricing 62.5% of the additional 25bp. At times last week, this was as low as 15%. In other words, the market is now more priced in for a 50bp cut than a 25bp cut. Were the opposite true, then the Fed might have worried that a larger cut may have suggested that “they knew something bad”, and cause a big drop in risk sentiment that could have become self-fulfilling. As it is, the current risks of moving more aggressively look limited. On Friday, 2Y US Treasury yields dropped a further 5.7 basis points, and the yield on the 10Y fell 2.3bp to 3.651%. EURUSD rose steadily throughout Friday and then settled at around 1.1089, after sniffing at the 1.11 level a couple of times and pulling back. The AUD also rose on Friday but gave back most of its gains and is currently about 0.6711. The JPY has made a more impressive gain. USDJPY has declined to 140.77 taking it level with its January lows. Other Asian currencies have also done well. The THB has rallied more than a per cent and is currently at 33.33. There have also been strong gains by the KRW and MYR. USDCNY is now 7.0972. US stocks continue to

rally. The S&P 500 gained more than 0.5% on Friday, and the NASDAQ was up 0.65%. Chinese stocks had another mixed day on Friday. The Hang Seng was up 0.75% but the CSI 300 fell 0.42%.

- **G-7 Macro:** There wasn't much data to get excited about on Friday. US import prices came in on the soft side. However, the University of Michigan consumer sentiment indices were generally a little stronger. Inflation expectations were mixed. 1Y ahead expectations came down more than expected to 2.7%, but the 5-10Y expectations rose to 3.1% from 3.0%. In short, there was nothing here to drive the markets in either direction. Market moves are being driven from elsewhere. There is little of note on the G-7 calendar today.
- **China:** China [published its data dump over the weekend](#), and the data largely came in weaker than already cautious forecasts. The property market slump worsened with a sharper sequential decline, dealing a blow to hopes for prices reaching a trough. Industrial production also slowed by more than expected to 4.5% YoY as property-related categories dragged on overall growth despite continued strength in hi-tech industries. FAI also slumped to 3.4% YoY ytd, the lowest level of the year as private sector investment fell to negative growth. Consumption unsurprisingly remained weak as well, with retail sales growth falling to 2.1% YoY as households dialled back discretionary spending. Last Friday's credit data was broadly in line with forecasts but also continued to show a year-on-year contraction in both aggregate financing and new RMB loans. The soft monthly data of the past few months does not bode well for achieving this year's 5% GDP growth target, and more aggressive stimulus may be needed to reach this goal.

China's economic activity has mostly been slowing in the last few months



What to look out for: India wholesale prices, Philippines workers remittance

September 16th

India: August wholesale prices

Philippines: July overseas workers remittance

US: September empire manufacturing

September 17th

SG: August non-oil domestic exports

Indonesia: August exports, imports, trade balance

Japan: July tertiary industry index

US: August retail sales, industrial production

September 18th

Japan: August exports, imports, trade balance, July core machine orders

Australia: August Westpac leading index

China: September 1-year medium term lending facility rate (due 18-25 Oct)

Indonesia: BI-Rate decision

September 19th

US: September FOMC rate decision, July total net TIC flows

Australia: August employment change, unemployment rate

UK: Bank of England Bank rate

Taiwan: September CBC Benchmark Interest rate

Philippines: August BoP overall

September 20th

Japan: August national CPI, September BoJ target rate

China: September 5-year and 1-Year loan prime rates

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