

Asia Morning Bites

Bank of Japan (BoJ) meeting is under the spotlight today



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Macro outlook

- **Global Markets:** US stock markets traded sideways on their return from the long weekend, and equity futures are suggesting another nervous day ahead. The EURUSD has nosed back below 1.08 as of writing, but rather than reflecting a general sense of market unease, the cause seems to be specific to the EUR. Bloomberg is running a story today suggesting that ECB President, Christine Lagarde, is leaning towards smaller hikes after a 50bp February increase, and this may be tempering the EUR's strength. There is a bit more life elsewhere in the G-10 FX space. For example, the AUD has risen to 0.699. Cable is also looking stronger, up at 1.2285 and the JPY is also fractionally stronger at 128.21 ahead of the BoJ meeting today (on which more below). Asian FX was mostly weaker yesterday. The CNY dropped half a per cent, rising at one point to 6.78 before settling a little lower, and this despite the better-than-forecast GDP figures yesterday. The IDR and PHP were also softer on the day. US bond markets gave a mixed performance, with yields on 2Y bonds dropping 2.7bp, while those on the 10Y Treasury rose 4.4bp to 3.548%. The Fed's Barkin is reported to have said that it is "too soon" to end Fed hikes, which one could interpret as meaning that he sees the case for ending hikes as building, and therefore needing pushback. They say "never fight the Fed", but equally, you might well take the advice "never take the Fed at face value".
- **G-7 Macro:** US advance retail sales for December will be the most watched data release today. A 0.9% MoM decline is the median forecast number – which may be received

reasonably by markets as pointing the economy in the right direction for lower inflation and an eventual pivot by the Fed. PPI data will probably add impetus to this, with a small month-on-month decline expected. Elsewhere, we have UK December inflation and final Eurozone inflation figures neither of which should provide markets with too much cause for concern.

- **Japan:** The Bank of Japan (BoJ) is expected to stand pat today after announcing a surprise band widening in December. 10Y JGB yields have traded above 0.50% over the past few days, which suggests that the market is expecting another widening of the yield band or even abandoning the yield curve control (YCC) policy in near future. In our view, the economy is not ready for a reduction in stimulus yet. Today's core machinery orders data recorded a fall of 8.3% MoM in November (vs 5.4% in October and -1.0% market consensus) and other recent activity data have also been weak. We believe that the BoJ's outlook will support our view. We expect the BoJ's GDP forecast for FY2022 and FY2023 to be revised lower. For CPI, we expect the BoJ to revise their forecast up a bit, but for it to remain below 2.0% next year. Another reason for the BoJ to leave policy alone today is that another band adjustment would probably just increase market expectations for even more policy tightening after that, and this is not what the BoJ would like to see.
- **Taiwan:** GDP for 4Q22 will probably show slower growth than the previous quarter due to weaker external demand for semiconductors. This should result in annual GDP growth of around 2% in 2022 compared with 6.53% in 2021. We expect more headwinds from external demand in 2023 while the central bank will likely continue to shadow the Fed in raising interest rates. Both factors mean a challenging year for Taiwan's economy in 2023.

What to look out for: BoJ discussion on Yield Curve Control

- 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)

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