Asia Morning Bites

It is a big day for data in China, but it is possibly too early to expect any positive effects from recent policy moves. Japan's September inflation declined, but this should be just a temporary dip and core measures are holding up

Global Macro and Markets

- **Global Markets:** US Treasury yields headed higher in a curve steepening move that may have had as much to do with the re-imposition of "Trump trades" than anything macro or Fed-related. That said, there was some solid US retail sales data to consider (see also below).

  https://think.ing.com/snaps/solid-us-spending-points-to-cautious-cuts/

  10Y yields rose 7.8bp to 4.091%, while there was a smaller 3.4bp increase in the 2Y yield. EURUSD continued to track lower following the ECB's 25bp rate cut yesterday and is now 1.0827. Our Eurozone team now see the ECB moving to cut rates quickly to a neutral level while weak growth persists. See here for more.

  The dollar was not universally stronger against G-10 currencies. The JPY slid above the 150 line yesterday, but the AUD and GBP made gains. In the rest of Asia, currencies were mostly weaker against the USD. The VND was the weakest of the bunch yesterday and has retraced more than 62% of the gains made since early July, trading currently at 25177. This move was driven by the central bank signalling that it was open to rate cuts to boost growth after a recent Super-Typhoon battered the economy. The KRW was also weaker. USDKRW rose to 1372.5. USDCNY was relatively stable ahead of today's data dump at 7.1229. US equities were flat on Thursday, but Chinese stocks fell further. The Hang Seng and CSI 300 both fell more than a per cent.

- **G-7 Macro:** G-7 Macro: Stronger US retail sales on top of recent disappointing inflation numbers are a cause for some in the market to have a re-think about the Fed's likely rate-cutting path. The November 25bp rate cut is only about 92% priced in currently. Retail sales rose 0.4% MoM in September, while the control group which removes some of the more volatile items, showed a 0.7% MoM gain. Yesterday's weekly jobless numbers also looked fairly benign yesterday, and about the only thing to spoil the day's macro picture was some weaker industrial production data for September. This showed a 0.3% MoM decline along with some downward revisions to previous data. Today is much quieter, with just US September housing starts and permits to look at.

- **China**: It's a busy day for data releases this morning in China. Third-quarter GDP will be the main focus in this month's data dump. We expect growth to slow further to 4.4% YoY from 4.7% YoY in 2Q, in line with the further deceleration of monthly economic activity data in the last few months, combined with a less favourable GDP deflator and base effects. Aside from GDP, property prices will be scrutinized closely as usual for signs of stabilisation or deterioration; there were various reports of more buying after the wave of optimism from the PBOC moves in September, though it is unclear if this will have a substantive impact on the overall price data. The main monthly economic activity data will also be released. We expect a fairly sluggish September to cap off the third quarter. Markets may be more willing than usual to look past this month's data releases as the focus remains forward-looking toward the impact of stimulus moving forward.

- **Japan:** Consumer inflation sharply cooled to 2.5% YoY in September (vs 3.0% in August, 2.5% market consensus), in line with the market consensus. Core inflation excluding fresh food and excluding fresh food and energy eased to 2.4% and 2.1% respectively, both were slightly above market consensus. The slowdown is likely to be temporary. This is largely due to summer subsidy programmes by utilities, which were down to 8.8% from 15.0% in August. On a monthly comparison, inflation dropped -0.3% MoM sa in September, the first fall since February 2023. Goods prices dropped sharply -0.6% MoM while services prices stayed flat.

  As for the BoJ, markets are widely expecting the BoJ to extend its pause at its October meeting. September's inflation slowdown is expected to be temporary, and the underlying price trend is still stronger than expected, with core inflation-beating the market consensus, so the market's attention should turn to Tokyo's October inflation data next week. We expect the monthly rate to rise by at least 0.6% m/m. If that's the case and the recent re-depreciation of the JPY continues, the BoJ is likely to resume normalisation as early as December.

What to look out for: Japan CPI and China data dump

October 18th

China: 3Q GDP, September industrial production, retail sales, surveyed jobless rate

India: October foreign exchange reserves

Japan: September national CPI

Philippines: September BoP overall

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