Asia Morning Bites

China announces opening up of economy at Belt and Road Forum.

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Global Macro and Markets

- **Global markets:** Despite a fairly light macro calendar, US Treasury yields pushed even higher yesterday and the 2s10s slope dis-inverted a bit more. Most of the movement was in the back end of the curve. 10Y yields rose 8.1bp to 4.915%. You have to go back to 2007 to see yields this high. The 30Y yield is just under 5%. The 2Y yield only rose 1.3bp to 5.223%. The USD has taken some support from these swings in yield, and EURUSD has dropped to 1.0538. Both the AUD and GBP were also down against the USD, though the JPY is still just holding the line below 150 at 149.86 currently. Again, it was a relatively quiet day for Asian FX, though most currencies were slightly weaker against the USD. The SGD pushed up to 1.3734. Equities are not enjoying this resumption of bond yield increases. The S&P500 fell 1.34% yesterday. The NASDAQ was down more than 1.6%.
- **G-7 macro:** The Fed's Beige book overnight showed the near-term outlook for the economy was "...stable or having slightly weaker growth". That and the latest surge in bond yields could well be enough to keep the Fed on hold at their November meeting. Jerome Powell speaks tonight at the Economic Club of New York. There is a Q&A session, and this could be a speech to watch closely. Fed speakers overnight (Waller and Williams) broadly kept to the "wait and see" line that has been coalescing from the Fed. Weekly jobless claims and US September existing home sales are the main releases today.
- **Australia:** We had looked for a weaker employment figure for September, following the big

part-time job-induced gains in August. And that is almost exactly what we got (+6.7K down from +66.3K), but for a very different reason than we had supposed. We believed the big surge in part-time jobs in August would translate into a smaller increase in full-time jobs in September as the jobs converted. Instead, we saw another large increase in part-time jobs (+46.5K), but an outright decline in full-time jobs (-39.9K) which delivers more or less the same overall employment change as we had expected, but by a different, and much weaker route. Making interpretation of these figures still more difficult, the unemployment rate fell to 3.6% from 3.7%, as the participation rate dropped. The number of unemployed also fell by almost 20 thousand. This data doesn't make it any easier to figure out what the RBA's near-term response could be.
- **China**: The Caixin news agency reports that President Xi has vowed to open up the Chinese market further at the Belt and Road Forum yesterday. This will include the removal of all restrictions on foreign investment in manufacturing and more free trade agreements with countries. The moves will also include pilot zones for e-commerce cooperation.
- Separately, the long-awaited default from Country Garden on its $15.4m coupon payment is now fact, after the grace period expired yesterday. Caixin also reports that this will likely set up a cross-default on other Country Garden debt. Country Garden has outstanding bonds totalling CNY104bn, of which CNY26bn are onshore, and CNY78bn are offshore, the same article notes. The offshore bonds have been trading at only a few cents on the dollar, so the direct realised losses stemming from this default could be relatively minor.
- **Japan:** Japan's trade balance unexpectedly returned to a small surplus of 62 billion yen in September (vs -JPY 987bn in August & -JPY451bn market consensus) as exports rebounded more than expected to 4.3% YoY (vs -0.8% in August, 3.0% market consensus). We saw a continued strong performance of transport exports (21.2 %) which is probably the main reason for the strong gain in exports to the US (13.0%) and EU (12.9%). However, the global electronics slump seems like it is continuing with semiconductor equipment down -14.5%, contributing to a decline in exports to China, the biggest destination of IT products. Meanwhile, imports fell slightly less than expected (-16.3% YoY in September vs -17.7% in August, -12.7% market consensus). Base effects are the main factor for weak imports, more than offsetting the recent rise in global commodity prices and the weak JPY.
- **South Korea**: The Bank of Korea meets today, and another hawkish pause is widely expected. We will listen carefully to Governor Rhee Chang Yong at the press conference about how the Bank of Korea's view of inflation and growth has changed.
- **Indonesia:** Bank Indonesia (BI) meets today to decide on policy. BI is widely expected to keep rates untouched at 5.75% today in a bid to shore up the IDR. The currency has come under pressure given the relatively tight policy interest rate differential of 25bps with the Fed. We expect BI to extend their pause for the rest of the year although Governor Warjiyo could consider a rate hike if the Fed hikes as well.

What to look out for: Australia labour data and regional central bank decisions

- Australia labor data (19 October)

- Bank Indonesia policy (19 October)

- Bank of Korea policy (19 October)
- US initial jobless claims and existing home sales (19 October)
- China loan prime rates (20 October)
- Japan CPI inflation (20 October)

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