Asia Morning Bites

US data provide fresh reasons for declines in bond yields, the USD...though payrolls later...caution warranted

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Macro outlook

- **Global Markets**: The run of data in the US supported some further declines in US Treasury yields yesterday (see next section for more). 2Y yields dropped by 8.3bp, while their 10Y counterparts fell 10.1bp to 3.505%. Bond yields haven't been this low since mid-September. The Fed's Williams was attempting a rear-guard action to try to reinstil a sense of hawkishness into market perceptions of the Fed, talking of still having "...a ways to go" before rates are high enough. Markets are not buying it. Equity markets looked to be running a little low on conviction yesterday. US stocks ended practically unchanged after a very flat session. In Asia, the Hang Seng index and CSI 300 both gained yesterday, but only 0.75% and 1.08% respectively, as investors perhaps take a more cautious outlook on Zero covid relaxation. Daily case numbers have been back above 4,000 (symptomatic) for the last two days. Nonetheless, this fizzling out of conviction hasn't helped the USD, and EURUSD is now above 1.05 (1.0530 as of writing), the AUD back above 68 cents, Cable 1.2263 and the JPY 135.20. Asian FX gains yesterday were driven by the high beta KRW and THB as expected. They are now 1299.60 and 34.78 respectively. The CNY made further small gains to reach 7.0534.
- **G-7 Macro**: Plenty of data yesterday to get your teeth into, and most (though not all) of it

pointed to weaker activity, and slowing inflation. The PCE deflator data for October had come in for a lot of scrutiny as people looked to poke holes in the recent declines in CPI. (for more, read this linked article from our US Economist) Yes, there are differences between these two series, but on the whole, they tend to move pretty closely together, and that is what happened in October. The headline PCE inflation rate fell from an upwardly revised 6.3% (was initially 6.2%) to 6.0%, while the core PCE rate, which a lot of people seem to think is the Fed's preferred measure of inflation (maybe, but only when it suits them) fell from an (again) upwardly revised 5.2% to only 5.0% on a 0.2%MoM increase in the core price level. Further declines in core PCE inflation look probable purely on the basis that the MoM increases in November and December last year were quite high. So by the time December PCE is out, we may be much closer to 4.5%. Not so scary. Admittedly, personal incomes and expenditures remained solid in October, and jobless claims looked fairly muted, So the story is not all one way. We also got the manufacturing ISM figures yesterday. Headline activity figures dropped into contraction territory, the employment index also moved into contraction and the prices paid index fell to a very weak-looking 43.0. Today is all about payrolls of course. The consensus forecast is 200,000 for the main figure, and for the unemployment rate to remain 3.7%, while average hourly earnings may drift slightly lower to 4.6%. Anything is possible though with this set of data, so surprises should be no surprise.
- **South Korea**: CPI inflation softened more than expected in November. The inflation rate for November fell to 5.0% YoY (vs 5.7% in October, 5.2% market consensus). The price index actually fell 0.1% MoM (nsa). The sharp slowdown in consumer price inflation in November was largely due to stable gasoline and fresh food prices, but also to a high base last year. We believe that today's outcome was not enough to dispel concern from the Bank of Korea about price inflation, as core CPI remained high (4.8%YoY), and so we expect the BoK to maintain its hawkish tone until early next year.

What to look out for: US jobs report

- South Korea CPI inflation (2 December)
- Fed's Evans speaks (2 December)
- US non-farm payrolls (2 December)

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