

Asia Morning Bites

China's manufacturing PMI data strengthened - there is more PMI data due today. BoJ Governor Ueda hints at a December rate hike and Korean export growth moderated in November, but one-off effects are responsible for some of this



Asia Morning Bites

Global Macro and Markets

- **Global Markets:** Treasuries continued to rally on Friday, with 10-year yields dropping a further 9bps to 4.16%. 2-year yields fell 7bps to 4.15%. The proposed appointment of new US treasury secretary Bessent and expectations that actual tariff policy measures might be less onerous helped yields test the downside. G-10 currencies were mostly lower vs the dollar, and Asians were mixed, with IDR and PHP registering mild gains. Overall the JPY stood out last week, gaining 2.8% vs the dollar as BoJ Governor Ueda signalled more hikes. US equities continued to be strong on Friday with NASDAQ up 0.8%, and US equities ending November with 5.7% gains.
- **G7 Macro:** The US manufacturing ISM for November and S&P manufacturing PMI are due today. The PMI is expected to be higher at 47.5 vs 46.5 the prior month. The more important non-farm payrolls (NFP) release is due later this week. We are looking for headline payroll growth of 225,000, but since 109,000 of this is a technical rebound, it implies "true" payroll growth of just 116,000 (225k-109k). If that is correct, the Federal Reserve is likely to cut interest rates again in December, especially if the unemployment

rate ticks up to 4.2% as we expect.

- **Asia:** Manufacturing PMIs are due in Korea, and we expect a weaker print. India should leave rates unchanged given the recent pick-up in inflation. In Indonesia, November's CPI reading is expected to ease further to 1.5% YoY. However, the bar for Bank Indonesia to ease rates in December remains high given the recent weakness in the local currency.
- **China:** Over the weekend, China's National Bureau of Statistics published the official November PMI data. The manufacturing PMI rose to 50.3 from 50.1, in line with our forecast and beating consensus forecasts to reach a 7-month high. The breakdown showed encouraging signs for domestic activity with an uptick in both production and new orders. New export orders also saw a smaller contraction on the month but employment worsened slightly. The official manufacturing PMI has now accelerated for three straight months.

China's non-manufacturing PMI on the other hand disappointed, with the headline falling back to 50.0 after last month's uptick to 50.2. While managing to avoid falling into contraction for the first time since 2022, the latest data has been teetering on the edge in 2H24.

The Caixin PMI release is scheduled for this morning and markets will look to the release to see if the uptick in the official data is confirmed - markets are expecting an uptick to 50.6 from 50.3.

- **Japan:** Capital expenditure rose by a stronger-than-expected 8.1% YoY in 3Q24 (vs. 7.4% in 2Q24, 6.7% market consensus), so 3Q24 GDP (0.9% QoQ saar) is likely to be revised higher. However, it is worrisome to see current profits dropping -3.3% YoY with manufacturing down -15.1%. However, we suspect this is related to carmakers' production disruptions. Over the weekend, Governor Ueda's interview with a local newspaper boosted market expectations for a December rate hike.
- **South Korea:** Export growth moderated to 1.4% YoY in November from the previous month's 4.6% growth rate, missing the market consensus of 2.8%. We are seeing a slowdown in export momentum compared to earlier this year, but some one-off factors are weighing on November exports as well. Delays in shipments due to heavy snowfall in the last week of November and labour strikes in the auto sector were the main reasons behind the slowdown. Average daily exports rebounded 3.6% in November, after a -0.2% decline in October. The increase in exports was narrowly based as only 5 of the 11 major export items rose.

IT exports were particularly strong, with semiconductors and computers up by 30.8% and 122.3% each. Vessel exports also increased 70.8%, which will continue to be positive for a while, albeit with monthly volatility. Meanwhile, car exports and general machinery exports dropped by -13.6% and -18.9% respectively. Petroleum and petrochemical exports declined as global commodity prices fell. By destination, exports to China (-0.6%) and US (-5.1%) declined, while exports to ASEAN(0.4%) and EU(0.9%) rose.

Imports dropped -2.4% in November. Energy imports declined -10.8%. Gas imports rose 6.3% while crude oil imports dropped -16.8%. Non-energy imports rose 0.1%. Notably, semiconductors & related equipment imports rose 86%. Yet auto (-29.4%), telephones (-32.6%), and petroleum (-18.7%) declined. The trade surplus widened in November to 5.6 billion USD from 3.2 billion USD in October.

In the short term, exports are expected to reaccelerate as last month's one-off negative factors dissipate and exports of cars and oil are likely to pick up. In addition, the increase in imports of capital goods, especially semiconductors, will lead to a rebound in equipment investment in the coming quarter. Global trade conditions are quite uncertain going forward, but we expect exports to remain the main growth driver, at least until 1H25, partly boosted by frontloading ahead of any significant changes in trade policy.

- Korea's manufacturing PMI returned to above 50 for the first time in three months. It rose to 50.6 in November from 48.3 in October with output and new orders rising. This supports our short-term view of a recovery in exports.

What to look out for: Australia retail sales, Indonesia CPI, China Caixin PMI, Japan capital spending

December 2nd

Australia: November Melbourne institute inflation, October retail sales

China: November Caixin China manufacturing PMI

Indonesia: November CPI

Japan: 3Q capital spending

Singapore: November PMI, electronics sector index

December 3rd

Australia: 3Q BoP current account balance

Japan: November monetary base

S Korea: November CPI

December 4th

Australia: October GDP

S Korea: November foreign reserves

December 5th

Australia: October imports, exports, trade balance

Philippines: November CPI

Singapore: October retail sales

S Korea: 3Q GDP

Taiwan: November CPI, PPI, foreign reserves

US: Fed releases Beige Book

December 6th

Australia: November foreign reserves

Indonesia: November foreign reserves

India: December RBI repurchase rate, RBI cash reserve ratio, November foreign exchange reserves

Japan: October labour cash earnings, leading index CI, coincident index

Philippines: October unemployment rate, November foreign reserves

Singapore: November foreign reserves

S Korea: October BoP current account balance

US: December U. of Mich sentiment

China: November foreign reserves (November 7th)

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