Asia Morning Bites

Sentiment rises in China but stays sour in the US as economic data diverges

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Global Macro and Markets

- **Global Markets:** Another day, another drop. US equities fell again yesterday. Not by much, but it is all adding up. The S&P 500 has now retraced almost two-thirds of the gains it made at the beginning of the year, before payrolls and other data knocked sentiment. There was a far better performance in Chinese stocks, as yesterday's stronger than expected PMI numbers showed the re-opening to be stronger than had been imagined. The Hang Seng rose 4.21% and the CSI 300 rose 1.41%. US Treasury yields nosed higher again yesterday. The 2Y Treasury yield rose 6.1bp to 4.876%, while that on the 10Y rose 7.2bp to 3.992%, and even went above the 4% level at one point. Is this it? We may have to wait until payrolls next week to find out. Despite the poor risk sentiment, and rising yields, the USD was pressured yesterday, and EURUSD rose to 1.0669. The AUD also rose, though not before it had a brief lurch downwards on the weaker growth and inflation figures (see here for more details). Cable didn't get much of a lift, and our UK economist and FX strategists don't see the Northern Ireland Protocol agreement with the EU as a game changer for sterling. The JPY has been on a bit of a roller coaster ride but is only fractionally stronger than this time yesterday at 136.04. Most of the Asia FX pack made gains against the USD yesterday, led by the CNY which has gained to 6.8698.

- **G-7 Macro:** German CPI for January remained at 8.7%, highlighting the difficulty that lies ahead for the ECB, which has already raised the refi-rate to 3.0%, and clearly still has a lot of work to do. The Eurozone CPI inflation figures are released today along with Euro area unemployment data and the ECB also publishes an account of the February policy meeting. The US data yesterday was mixed at best, softer production indicators and weaker construction combined with an increase in the ISM prices paid index also suggest that the US economic mix is not very favourable. There isn't much worth looking at on the US calendar today. Maybe jobless claims ahead of next week's payrolls.
- **South Korea**: Industrial production (IP) rebounded 2.9% MoM sa in January, the first rise in seven months. Semiconductor production fell (-5.7%) but a huge increase (111.0%) in mobile phones & camera modules and a decent rise in autos (9.6%) led the gains. We believe that the deviation between semiconductors and autos will continue for a while, but based on the weak February export outcome (-7.9%YoY), we expect manufacturing IP to turn soft again in February. Retail sales declined 2.1% MoM sa for a third consecutive monthly decline as reopening effects dissipated and higher interest rates dragged down consumption. Facility investment also fell 1.4%MoM sa mainly led by the decline in chip manufacturing equipment. Summing up the recent export and production data together, we expect GDP in the current quarter to contract (-0.2%QoQ sa) and downside risks are growing.

What to look out for: US initial jobless claims

- Hong Kong retail sales (2 March)
- Thailand trade balance (2 March)
- US initial jobless claims (2 March)
- Japan Tokyo CPI inflation and Jibun PMI services (3 March)
- China Caixin PMI services (3 March)
- Singapore retail sales (3 March)
- US ISM services (3 March)

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