

Asia Morning Bites 2 November 2023

Asian markets digest US Treasury yield swing ahead of payrolls release tomorrow



Asia Morning Bites

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Global macro and markets

- **Global markets:** If last night's FOMC meeting was supposed to be a "hawkish pause", then markets weren't listening. Yields on the 2Y US Treasury note dropped 14.4bp, taking them below 5% (4.944%), and there was an even bigger drop at the longer end. 10Y yields fell 19.7bp to 4.734%, and implied rates now show a 25bp cut priced in at the June meeting in 2024. FX markets are still a bit mixed and may spend today catching up with the implications of the drop in yields. EURUSD is fractionally higher at 1.0582, having drifted lower for most of yesterday. The AUD is looking stronger, probably as markets (and ourselves) are firmly of the view that the RBA actually hikes rates again next week, closing the policy rate gap with the US a bit. AUDUSD is now up to 0.6418. Cable is also a little higher after a choppy session, and is currently trading at 1.2177, while the JPY has edged slightly down from yesterday's highs to 150.65. Losses from the THB, KRW and IDR yesterday will likely reverse today and follow the AUD and JPY. US stock markets were lifted by the drop in bond yields. The S&P 500 rose 1.05%, while the NASDAQ was up 1.64%. Chinese stocks were broadly flat yesterday.
- **G-7 macro:** [Here is a link to our US economist, and FX and rates strategists' note on the FOMC meeting.](#) The twin features of the Fed suggesting that higher yields are doing some of

their work for them, plus lower supply issuance pressures at the longer end are probably the main causes of the big drop in yields overnight. Nevertheless, the Fed is still leaning towards higher, not lower rates, so last night's bond swing may not be the end of the story just yet. Ahead of the non-farm payrolls release tomorrow, yesterday's ADP print was 113K. That is close to its 89K reading last month, which was hopelessly inaccurate, so it is anyone's guess if this is a useful, or contrarian steer ahead of payrolls. Perhaps more ominously, the manufacturing ISM slowed sharply. The headline ISM index was already in negative territory in September (49.0), but dropped to a much weaker 46.7 reading in October, with a sub-50 employment index too (46.8). New orders also dropped sharply to 45.5. Today's US macro data is the final durable goods/factory orders data for September, which won't have much additional bearing on the market in all likelihood. The Eurozone releases its own manufacturing PMI data today.

- **Korea:** Consumer price inflation unexpectedly rose to 3.8% YoY in October (vs 3.7% in September, 3.6% market consensus, 3.9% INGf). Korea's inflation has been reheating for three months in a row after the recent low of 2.3% in July. Food and energy was the main reason for the rise; fresh food (12.1%), gasoline (6.9%), public transportation fees (11.3%), taxi (20%), and dairy products (milk 14.3%). Core inflation excluding food and energy edged down to 3.2% YoY, but has stubbornly stayed around that level for four months. Looking ahead, we expect headline inflation to climb even more to touch the 4% level in November but we look for core inflation to ease down into the 2% range, mostly due to base effects. This will make it more likely that the BoK will hold its hawkish stance longer than expected, but another rate hike possibility is still low.

Japan: Prime Minister Fumio Kishida is planning to announce an economic stimulus package. The planned size, JPY21.8 trillion, is smaller than in the pandemic era, but still higher than the market expected. But markets seem a little sceptical of the positive impact this stimulus package will have on the economy. A highlight of the stimulus is income and residential tax rebates to aid households (especially low-income households), hit by higher inflation. But the impact of tax rebates is usually smaller than cash transfers or shopping vouchers. Also, the rebates will only be temporary, thus the impact could be limited.

- **Australia:** Australia's trade surplus narrowed sharply in September. Exports fell 1.4% MoM, (partly reversing last month's 4.5% gain). But the main damage was done by a solid 7.5% MoM increase in imports, with imports of capital goods rising especially strongly, taking the surplus down from AUD10.2bn to AUD6.8bn.

Malaysia: Bank Negara Malaysia will meet today to discuss policy rates, and is unanimously expected to leave rates unchanged at 3.0%. Inflation is currently only 1.9%YoY, so there is no need for them to tighten at this stage.

What to look out for: Australia trade balance and South Korea inflation

- South Korea CPI inflation (2 November)

- Australia trade balance (2 November)
- Malaysia BNM policy (2 November)
- US factory orders and initial jobless claims (2 November)
- Australia retail sales (3 November)
- China Caixin PMI services (3 November)
- Singapore retail sales (3 November)
- US NFP and ISM services (3 November)

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