

Asia Morning Bites

China PMI data suggest the economy is troughing. Stronger-than-expected Japan Tankan results for 3Q23.



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Global Macro and Markets

- **Global markets:** Between last Friday and now, there have been plenty of events to weigh on markets during this payroll week. Things started off with a low reading on the US core PCE deflator, which took 10Y bond yields down to about 4.5%. Interestingly, the last-minute US government shutdown avoidance has helped yields creep higher again, and the 10Y now yields 4.57%, not much different to where it had been trading. 2Y UST yields are 1.5bp lower at 5.044%. There was some dovish commentary from the NY Fed's Williams, who expressed that rates may have already peaked, though he added that rates would have to stay at current levels for some time. Both Jerome Powell and Patrick Harker are on the calendar at a roundtable discussion today, so there could be some further views to dissect this time tomorrow. The aversion of the government shutdown is possibly only a temporary reprieve, and we will have to go through this all again in less than 45 days' time. The next FOMC meeting is on 2 November. So while any new shutdown threat will come after that, it may still weigh on FOMC voters' minds when it comes to that meeting.

US stocks ended fairly flat on Friday. The S&P 500 dropped 0.27% but the NASDAQ was 0.14% higher. Equity futures look quite upbeat, which may set the tone for Asian stocks today.

The USD weakened through most of Friday before recovering most of the ground lost. EURUSD is now 1.0560, not much different from the last trading session. The AUD has followed a similar pattern and is now 0.6433, likewise the GBP at 1.2189. The JPY is trading at 149.60 this morning, only a short hop to levels at which we think the BoJ might intervene, though the positive Tankan results should provide some support. Asian FX was mostly stronger against the USD on Friday but may need to adjust for the later USD strength. Friday's strongest performers, THB, PHP and IDR may have some of the biggest adjustments to make. China is out on vacation all this week.

- **G-7 macro:** Today's G-7 macro centres on the first pre-payroll release of the week, which is the manufacturing ISM index. This has been running very weak recently, though last month, it did increase to 47.6 from 46.4. A further small increase is forecast for this month. The employment index for August was 48.5. There is no consensus for the September employment index.
- **Japan:** The headline large manufacturing firm index of the BoJ's 3Q23 Tankan survey showed a slightly larger increase than expectations. The index rose to +9 in 3Q23 from +5 the previous quarter (+6 expected) and shows that the recovery is still underway. The large firm non-manufacturing index also increased more than expected, rising to +27 from +24. Forward-looking outlook surveys also increased, against expectations for a small decline. Small firms didn't fare quite as well. The small firm manufacturing index was unchanged at -5, though the non-manufacturing index improved to 12 from 11.
- **China:** Recent PMI data suggests that the downturn in China has stopped and the economy has troughed. The official PMI data showed small increases for the manufacturing and non-manufacturing sectors. The manufacturing PMI index now shows a small positive reading of 50.2 (was 49.7). The Caixin PMI figures weren't quite so upbeat. The Caixin manufacturing index dropped to 50.6 from 51.0 and the service sector index fell to 50.2 from 51.8, though both still indicated modest expansion rather than contraction (though not by very much).
- **Indonesia:** CPI inflation is set for release today. Inflation in Indonesia remains subdued, helped along by a favourable base. September inflation could slide to 2.3% YoY while core inflation could be steady at 2.2% YoY. An uptick in rice prices could nudge the headline higher although we still see inflation staying within target for the rest of the year. Steady inflation is one reason for Bank Indonesia to remain on hold for now with the central bank relying on other measures to steady the IDR.

What to look out for: Regional PMI and US ISM

- Regional PMI (2 October)
- Indonesia CPI inflation (2 October)
- US ISM Manufacturing (2 October)
- RBA meeting (3 October)
- US JOLTS (3 October)

- South Korea industrial production (4 October)
- Japan Jibun services PMI (4 October)
- New Zealand RBNZ policy (4 October)
- US ADP employment, factory orders and ISM services (4 October)
- South Korea CPI inflation (5 October)
- Philippines CPI inflation (5 October)
- Australia trade (5 October)
- Singapore retail sales (5 October)
- Taiwan CPI inflation (5 October)
- US trade and initial jobless claims (5 October)
- Philippines unemployment (6 October)
- India RBI policy (6 October)
- US non-farm payrolls (6 October)

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