Asia Morning Bites

Asian markets in limbo ahead of US jobs report while Asian FX feels the heat from USD strength.

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Macro outlook

- **Global markets**: The slow bleed in US equities continues to show signs of clotting, though there was still a small fall from the NASDAQ yesterday even though the S&P500 managed to eke out a slight (0.3%) gain on the day. Futures markets are not signalling any intent ahead of the September payrolls release later today. Shorter dated US treasuries trod water yesterday. The yield on the 2Y note rose only 0.6bp – essentially flat – though 10Y yields kept pushing higher and added 6.1bp to take them to 3.253%. We still think there is a little more upside to come from these over the coming weeks, but let's see how payrolls pans out first before we start thinking about direction too seriously. The EUR didn't manage to buck the rest of the G-10 for long, and it has dropped back below parity against the USD to stand at 0.9948 now. That move has given other G-10 currencies another push lower, with the AUD now at 0.6789 after a weak day yesterday. Cable has dropped through another big figure, and is currently trading at 1.1545, virtually back to Covid-lows. And just as we intimated in yesterday's note, the JPY did indeed breach 140, and is at 140.07 now. What's going to stop the USD run? Right now, it's very hard to come up with a convincing-sounding answer to that. Asian FX had a lousy day yesterday. The KRW was the worst-performing currency, pushing back up through 1350. The THB, PHP and SGD all lost around 0.4-0.5% vs the USD on the day. The latest comments from the Fed's Bostic, that the Fed still has "work to do" to control inflation, add nothing to the fed/inflation/rates picture. Other regional news that may weigh on markets today includes China's latest battle to keep Covid under control, involving more lockdowns in Shenzen, Chengdu and Dalian, more US restrictions on technology exports to China, and continued tension across the Straits of Taiwan.

- **G-7 Macro**: As mentioned, it is US payrolls Friday today. The median forecast on Bloomberg is for employment growth of just under 300,000 with an unchanged (3.5%) unemployment rate and average hourly earnings growth of 5.3%YoY. Not much else matters today.
- **Korea**: Headline inflation slowed to 5.7% YoY in August (vs 6.3% in July) after six months of accelerating. The figure was also lower than the market consensus of 6.1%. The seasonally adjusted monthly growth rate declined by -0.23% for the first time since October 2020, mainly due to fuel-tax cuts and a drop in gasoline prices. We think inflation has now passed its peak. But fresh food prices are still expected to rise further in September and manufactured food prices are also scheduled to rise after the Choseok holiday. Also, utility fees - city gas and power – will rise again in October, and some local governments are planning to increase service fees too. Consequently, inflation will likely remain above 5% until the end of the year. The Bank of Korea (BoK) will take some comfort from today's data but will continue to stay on a hiking path at least until the end of the year. However, the weaker-than-expected inflation print supports our view that the BoK will end its hiking cycle at 3.0% in November.

What to look out for: US non-farm payrolls

- South Korea CPI inflation (2 September)
- US non-farm payrolls, durable goods orders and factory orders (2 September)

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