

Asia Morning Bites

A relief rally is possible on Monday but the Fed meeting later in the week is still in focus.



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Global Macro and Markets

- **Global Markets:** US equity futures seem to be responding positively to the latest news out of the banking sector over the weekend, with reports of a takeover of Credit Suisse by UBS and [improvements to dollar funding liquidity](#). That said, the session on Friday was again down, with both the S&P 500 and NASDAQ making losses. Anxiety ahead of this week's Fed meeting (23 March) and the accompanying message may keep risk sentiment more subdued than otherwise. ([Here is a link to a video on the upcoming Fed decision](#)). Market futures attach only a 68.3% probability to a 25bp rate hike. Chinese stocks were higher on Friday, [perhaps helped by the RRR](#) cut. The Hang Seng rose 1.64% while the CSI 300 rose 0.5%. Bond markets were once more extremely erratic. The 2Y US Treasury dropped by 32bp to 3.837. 10Y US Treasury yields fell 14.8bp to 3.429%. Despite risk sentiment still being challenged, such large falls in bond yields have led to losses by the USD against the EUR. EURUSD moved higher on Friday returning to 1.0680. The AUD also re-gained ground, rising to 0.6710, as did Cable (1.2817) and the JPY (132.17). Other Asian FX also made gains against the USD on Friday, led by the KRW and THB.
- **G-7 Macro:** There wasn't too much out on Friday, but the US dataflow was not particularly positive. Industrial production was flat on the month after a 0.3% MoM gain in January. And

the University of Michigan sentiment indices were also mostly lower, including the inflation expectations figures. Today is a very quiet day for G-7 data, with only German PPI for February, UK house prices and EU trade figures to break the calm.

- **China:** After the PBoC cut the Reserve Requirement Ratio (RRR) on Friday evening, the market is watching whether 1Y and 5Y loan prime rates will also go down today. The PBoC's governor, Yi Gang, said earlier that RRR cuts are the preferred tool for economic recovery. And although that does not rule out rate cuts - doing both at the same time is probably not the central bank's choice as it could provide too much stimulus and fuel inflation later in the year. We, therefore, expect no cut in loan prime rates. If we are wrong, the probability of a cut to the 5Y loan prime rate is larger than that for the 1Y rate. That is because these would lower the cost of long-term investment, leading to lower interest payments for new issuance by local government financing vehicles - a big risk on our radar.

There is a new surge in African swine fever in China - the disease that killed as many as 50% of all pigs in China back in 2018-2019. That would by itself be enough to push CPI higher even without any rate cuts today. This will not reflect immediately in the upcoming CPI data, but it should move higher in 2H23 if the swine fever spreads further.

What to look out for: FOMC meeting

- China loan prime rate (20 March)
- Malaysia trade balance (20 March)
- Taiwan export orders (20 March)
- South Korea advance trade balance (21 March)
- Australia RBA minutes (21 March)
- US existing home sales (21 March)
- Australia Westpac leading index (22 March)
- US FOMC meeting (23 March)
- Singapore CPI inflation (23 March)
- Taiwan industrial production (23 March)
- Philippines BSP policy meeting (23 March)

- Taiwan CBC policy meeting (23 March)
- Hong Kong CPI inflation (23 March)
- US initial jobless claims and new home sales (23 March)
- Japan CPI inflation and Jibun PMI (24 March)
- Malaysia CPI inflation (24 March)
- Singapore industrial production (24 March)
- US durable goods orders (24 March)

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