

Asia Morning Bites

Verbal intervention on the JPY ramps up ahead of Friday's Bank of Japan meeting. China's Loan Prime Rates decision looming



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Global Macro and Markets

- **Global markets:** US Treasury yields continued to make gains yesterday ahead of tonight's FOMC decision. The 2Y UST yield rose 3.6bp to 5.09%, while the 10Y yield rose 5.6bp to 4.359%. This is the highest yield for the 10Y US Treasury since 2007. EURUSD is little changed from this time yesterday. It did rise to 1.0718 intraday but has returned to 1.0682 now. The AUD is a little stronger at 0.6460, as is the GBP at 1.2394. The JPY has been quite choppy as Japanese officials ramped up their verbal intervention and Janet Yellen signalled that the US was not opposed to intervention to smooth JPY volatility. That said, the JPY is still slightly weaker at 147.72. There is a Bank of Japan meeting on Friday. Other Asian FX has not moved much. The KRW and THB are trailing the rest of the pack. USDCNY is currently 7.2973. US equity markets lost a little ground yesterday. Both the NASDAQ and the S&P 500 fell by about 0.2%. The Hang Seng rose 0.37%, but the CSI 300 fell 0.19%.
- **G-7 macro:** US August New housing starts fell much more than expected yesterday, though this was about the only data release on the calendar, and the forward-looking building permits figure was stronger, so on balance, this nets out. Today is another quiet day for Macro apart from the FOMC decision. Here, we see no change but the Fed will likely keep the door open for a further hike. [See the following scenario analysis from our US Macro, rates](#)

[and FX colleagues for more](#). The market response to the FOMC will depend primarily on how credible the threat of further hikes is seen to be. The UK releases August inflation figures, which may make the difference between a hike and a pause at tomorrow's Bank of England rates meeting. [See this from James Smith for more details](#). US mortgage approvals round out the day.

- **Japan:** August exports fell -0.8%YoY (vs -0.3% in July, -2.1% market consensus) making it the second consecutive month of decline, mainly due to poor exports to China. Exports to China dropped the most (-11.0%) while exports to the US (5.1%) and EU (12.7%) continued to rise. By export item, motor vehicles (40.9%) and semiconductors (8.1%) gained, but chemicals (-11.7%) and machinery (-9.6%) exports dropped quite sharply. We think the weak recovery in China will continue to have a negative impact on exports for a while, but semiconductors seem like they are bottoming out from the down cycle. Strong net export contributions drove the previous quarter's strong GDP growth, but we expect this to weaken in the current quarter, and 3Q23 GDP is likely to decelerate quite sharply.

Korea: Producer prices rose 1.0% YoY in August, after having fallen for the previous two months. Fresh food (14.6%) prices gained the most as expected, reflecting poor harvests and demand pick up as the Chuseok holiday is approaching. Utility prices rose 12.8% but decelerated from the recent peak of 22.9% in June. Rising producer prices will pass through to consumer prices with a time lag. Consumer prices will likely stay in the 3% range over the next few months. The Bank of Korea's hawkishness will be maintained throughout the year.

What to look out for: The Fed and China loan prime rates

- Australia Westpac leading index (20 September)
- China loan prime rates (20 September)
- Taiwan export orders (20 September)
- US MBA mortgage applications (20 September)
- FOMC decision (21 September)
- New Zealand GDP (21 September)
- South Korea trade (21 September)
- Bank Indonesia policy (21 September)
- Bangko Sentral ng Pilipinas policy (21 September)

- Taiwan CBC policy (21 September)
- Bank of England policy (21 September)
- US initial jobless claims and leading index (21 September)
- Japan CPI and PMI (22 September)
- Australia PMI (22 September)
- Malaysia CPI (22 September)
- BoJ policy (22 September)

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