

Asia Morning Bites

No change is likely from the BoJ today - But Ueda's guidance will have the market's full attention



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Global Macro and Markets

- **Global Markets:** Treasuries were fairly quiet on Thursday following all the FOMC excitement the day before. The 2Y yield was slightly lower by the end of the session, though falling only about 3.6 basis points, it is only about 2bp lower than pre-FOMC at 3.581%. The 10Y yield declined by less than a basis point and is 3.713%. That lack of Treasury action was not mirrored in FX markets. EURUSD had a choppy day, falling first to about 1.1070 before rising to just under 1.1190, and settling at 1.1160. The AUD had a similarly choppy though more one-sided day, rising to just above 68 cents. Cable also rose to 1.3280 after the Bank of England left rates unchanged as expected. The JPY was steadier, but still lost a little ground to the USD rising to 142.7970. Most of the Asian pack made smallish gains - though the MYR continued on a tear, rising 1.25% on the day and getting close to 4.20. The IDR and THB also had strong days. USDCNY is now down to 7.0627. Equities had a delayed surge on Thursday after digesting the FOMC message which was relatively upbeat on growth, yet still offered sizeable rate cuts. The S&P 500 rose 1.7% and the NASDAQ rose 2.51%. The Hang Seng and CSI 300 had a rare day of joint gains. The Hang Seng rose 2.0% and the CSI 300 rose 0.79%.
- **G-7 Macro:** Apart from the BoJ meeting (see separate section) There isn't much on the G-7 calendar today apart from UK and Canadian retail sales figures.

- **Japan:** The Bank of Japan announces its policy decision today, and no rate action is widely expected. The BoJ would probably like to take a wait-and-see approach after its July hike to monitor the impact of its rate increases earlier this year. The market will be watching Governor Ueda's communication closely to gauge the timing of the BoJ's next move. His stance has been surprisingly firm in support of the bank's policy normalisation, despite the rather large market turbulence in early August. Also, he reiterated that the BoJ will adjust its policy if data comes out in line with the BoJ's forecast. Thus, inflation, wages, and household spending are key indicators to watch.

Today's August consumer price inflation came exactly in line with market expectations. Headline inflation rose 3.0% YoY (vs 2.8% in July) and core inflation excluding fresh food rose 2.8% (vs 2.7% in July). The pickup in August was mostly due to base effects related to the utility subsidy programme. It was also already signalled by earlier Tokyo inflation data, so we believe it is not market-moving. More important to watch will be inflation for September and October. Consumer inflation is expected to ease again in September due to re-starting utility subsidies, but October is usually the month for price rises for the 2nd half of the year.

- We see a 25bp hike in December as slightly more likely than a hike in October. This is because the recent JPY appreciation should ease the BoJ's concerns about the negative impact of rising import prices. Moreover, the recent decline in global commodity prices may also be a reason for the BoJ to wait until December. The risk to our BoJ call is that if October's price increase is larger than expected, the probability of an October hike will increase.
- **China:** China's banks will announce the 1 and 5 year loan prime rates today. Given the PBOC has not announced any policy rate cuts this month, we are not expecting any change in the prime rates today, but a rate cut could come at any time in the aftermath of the Fed's cut. With the PBOC likely to cut rates further and reports that existing mortgage rates could soon be slashed, banks will continue to face some pressure.

What to look out for: Japan National CPI, BoJ target rate, China 5 and 1-year loan prime rates

September 20th

Japan: August national CPI, September BoJ target rate

China: September 5-year and 1-Year loan prime rates

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