

Asia Morning Bites

Asia markets to remain defensive as market participants monitor geopolitical developments



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Macro outlook

- **Global:** The announced extension of military exercises between Belarus and Russia over the weekend and further warnings from the US administration of possible imminent military action have heightened market anxieties. Equities fell further on Friday and safe-haven assets like US Treasuries gained. Yields on the 10Y US Treasury declined a further 3bp on Friday to stand at just under 1.93% now. Still, the market moves seem relatively modest given the backdrop, though equity futures suggest further downside to come. The US is on vacation today for US President's day, so markets may be a little choppy than usual as a result. Data flow in the G-7 is limited today to a wave of PMI data across Europe. These indices are mainly expected to show modest gains as Europe emerges from its Omicron waves to a new endemic form of living.
- **Japan:** The February manufacturing PMI fell to 52.9 from 55.4 in January, with both output and new orders down sharply. The recent Omicron surge and global supply chain bottlenecks are the most likely reasons for the decline.
- **China:** The PBoC will set the 1Y and 5Y Loan Prime Rates (LPR) today. The market expects no change to these rates. This should be followed by "no-change" to the Medium-Term Lending Facility (MLF) as it is a variable in the formula of setting the LPR. Even though the

PBoC has said that its monetary policy will be proactive, it seems that it is now behind the curve as bond defaults are rising again. This will increase credit costs. Higher borrowing costs will hurt GDP growth.

- **Korea:** The 20-day trade (Exports 13.1% YoY, Imports 12.9%) data suggest that the Feb trade balance will post a slight surplus after recording a deficit for two straight months. That said, the net export contribution to GDP will be lower than expected, adding some downside risk to the current 1Q22 GDP forecast of 2.9%YoY.
- **Taiwan:** Export orders are expected to grow at around 15%YoY in January as semiconductor production should be running at full speed. Equipment export growth could slow, as its peak should have passed in 2H21.
- **Indonesia:** Bank Indonesia Governor, Warjiyo's recent interview show a stark shift in tone. Over the weekend Warjiyo indicated that he is now open to hiking policy rates as early as July should inflation accelerate. Previously, Warjiyo had hinted that he would prefer to keep rates unchanged until the end of the year. Furthermore, Warjiyo also indicated that he would like to end BI's "burden-sharing" arrangement with the national government by the end of the year. We continue to pencil in a BI rate hike by 2Q22.

What to look out for: Geopolitical developments

- Australia PMI (21 February)
- China loan prime rate (21 February)
- South Korea trade (21 February)
- Thailand GDP (21 February)
- Hong Kong CPI inflation (22 February)
- US conference board consumer confidence (22 February)
- RBNZ policy meeting (23 February)
- Thailand trade balance (23 February)
- Singapore CPI inflation (23 February)
- Hong Kong GDP (23 February)
- Taiwan GDP (24 February)
- South Korea BoK meeting (24 February)
- US initial jobless claims (24 February)
- US GDP, core PCE new home sales (24 February)
- Singapore industrial production (25 February)
- Tokyo CPI inflation (25 February)
- US durable goods and personal spending (25 February)

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