

Asia Morning Bites

Asian FX back in the cross-hairs as the USD gains on SNB cut



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Global Macro and Markets

- **Global Markets:** Surprise central bank moves were the main ingredient in yesterday's market salad, with a surprise rate cut from the Swiss National Bank, [a surprise rate hike from CBC Taiwan](#), and a dovish shift in the voting at the Bank of England.
- In terms of the US Treasury market, the action was to start unwinding the declines in yield that followed the FOMC meeting earlier in the week, and 2Y yields moved up 3.4bp, while yields in Europe mainly tracked the SNB move and declined. 10Y US Treasuries haven't moved much. 10Y German bund yields fell just under 3 basis points to 2.403%. The 10Y JGB yield is still well-behaved at 0.73%. EURUSD did not hold on to any of its post-FOMC gains and is back now to 1.0861. The AUD has also lost ground, but not as much as the EUR and is back down to 0.6572. [Yesterday's very strong labour data will have provided some support. And after two of the Bank of England's hawks dropped their vote for further hikes](#), Cable had slumped back to 1.2659. The CHF weakened sharply after the SNB move, rising from about 0.8840 to 0.8977. Asian FX played catch up with the G-10 gains yesterday, but looks poised to reverse this today. The KRW gained 1.29% yesterday, gapping to 1322, but could be in the market's cross-hairs today. US stocks made small gains yesterday. In China, the Hang Seng had a solid day, rising 1.93%, but the CSI300 dropped 0.12%.
- **G-7 Macro:** [The SNB's surprise cut of its policy rate from 1.75% to 1.5% stole the headlines yesterday](#), and suggested that there were more rate cuts to come. While this is quite an

interesting development, perhaps the main question is, could this also be a playbook for the ECB? Can it lead the Fed in this easing cycle? And if so, what does this mean for EURUSD?

- Yesterday's PMI data from the Euro area were very mixed, though there was some slight improvement in the aggregate index. US PMI data was also reasonably strong, as were the existing home sales figures. It is a much quieter day today, with Germany's Ifo survey and UK retail sales the main releases from the G-7.
- **Japan:** Consumer price inflation jumped to 2.8% YoY in February (vs 2.2% in January, 2.9% market consensus). The jump is largely attributed to a low base last year, related to government energy subsidy programmes. Inflation was unchanged on a seasonally adjusted monthly basis. Utilities dropped -3.0% in February, though this was much less than the previous month's -13.9% fall. Transport & communications and entertainment rose firmly by 2.9% and 7.3% respectively. To look at the underlying inflation trend without the distortion from utilities, we tend to look at core-core inflation, which excludes fresh food and energy. That measure of inflation eased to 3.2% (vs 3.5% in January, 3.3% market consensus). We think core inflation will continue to moderate but remain above 2%. We will also get more wage negotiation results today. We expect these to come in above 5%. If strong wages support demand-driven inflation later this year, then another rate hike by the BoJ in the second half of the year may be possible.

What to look out for: Taiwan unemployment and China YTD FDI

- Taiwan unemployment (22 March)
- China FDI YTD (22 March)

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