

Asia Morning Bites

Japan's October inflation data support our December BoJ rate hike call



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Global Macro and Markets

- **Global Markets:** Bond yields saw mixed performance yesterday. US 2Y yields were up 3.4bp to 4.35%, and the 10Y yield moved 1.2bp higher to 4.42%. Japanese 10Y yields rose 2.4bp to 1.08%. In Europe, German 10Y yields fell 3.2bp to 2.38%, French 10Y yields dipped 0.2bp to 3.10%, and UK yields fell 2.6bp to 4.47%.

In FX, most G10 currencies weakened against the dollar, with the EUR down around -0.7%, the GBP down -0.5%, and the CHF down -0.3%. The JPY was the main exception, up 0.7% yesterday. In Asia, there was not much movement on the day, with the THB up 0.2% and the IDR and SGD down -0.4% and -0.3% respectively. All other regional currencies were little changed with movements within 0.2%.

Equities generally increased yesterday, with the S&P 500 up 0.5%, the NASDAQ flat at 0.03%, and the Dow up 1.1%. The Euro Stoxx 50 rose 0.6% and FTSE 100 was up 0.8%. In Asia, the Nikkei was down -0.9%, the Hang Seng index down 0.5%, while the CSI 300 managed a small uptick of 0.1% on the day.

Bitcoin also rose yesterday, breaking a new all-time high of just shy of 99k close to the major psychological mark of 100k. With "anti-crypto" SEC chair Gary Gensler on the way out, markets anticipate Trump to nominate a pro-crypto replacement, and excitement about a potential Bitcoin strategic reserve has fuelled the latest rise.

- **G7 Macro:** Matt Gaetz, Trump's first nominee for Attorney General, announced he was withdrawing his name from consideration after various allegations as he did not want to be a distraction. Trump almost immediately followed this up by announcing Pam Bondi as the next nominee, one of Trump's defence lawyers during his first impeachment trial. For the data out yesterday, the US published its jobless claims data, which came out a little lower than expected at 213k, as well as the Conference Board's leading index, which came out weaker than expected at -0.4%. US existing home sales were also in line with expectations at 3.96m.
- Overseas, we have flash PMI data for the US and major European economies out today. Most forecasts are pointing to a flat or slight improvement on the month, October UK retail sales data are out in the afternoon, and the University of Michigan sentiment and inflation expectations data is out in the evening. In Asia, we have a few data releases out today as well. There are some flash PMI releases for Japan and India, and Malaysia is set to publish its October CPI inflation data.
- **Japan:** October inflation data showed that overall inflationary pressures remain stronger than expected, adding to the possibility of a December hike by the BoJ. On a monthly basis, the CPI index rose 0.4% MoM in October (-0.3% in September), with both goods and services up 0.4%. We note that the BoJ would welcome a strong rise in services prices.
- Consumer price inflation slowed to 2.3% YoY in October (vs 2.5% in September, 2.3% market consensus). The deceleration was mainly due to base effects related to utility subsidy programs. Utilities slowed sharply from 8.8% previous month to 3.2% in October. Core inflation excluding fresh food also recorded a 2.3%YoY growth (vs 2.4% in September), which was a bit higher than the market consensus of 2.2%. More importantly, core inflation excluding fresh food and energy accelerated to 2.3% from 2.1% last month (vs 2.2% market consensus).
- After Governor Ueda hinted earlier this week that the BoJ's December meeting would be a live discussion and a data-dependent decision, today's inflation data was closely watched by market participants. Tokyo inflation for November will be released next Friday and we expect a further acceleration. In our view, the recent trend in inflation is in line with the BoJ's inflation forecast and a weaker yen increases the risk of overshooting, which together lead us to maintain our long-held view of a 25bp hike in December.
- The flash composite PMI rose to 49.8 in November from 49.6 in October. The services PMI improved to 50.2, back above 50, but the manufacturing PMI fell back to 49 from 49.2 in October. Reading today's figures, services will continue to drive overall growth, but as the composite PMI remained below 50 for a second month, it clouds the near-term growth recovery.
- **Singapore:** The final 3Q24 GDP revision showed activity revised substantially higher to 5.4%YoY, beating consensus expectations for an upward revision to 4.7%.

What to look out for: India PMIs, Japan CPI & PMI, Taiwan unemployment rate

November 22nd

India: November HSBC India manufacturing PMI, composite PMI

Japan: October national CPI, November Jibun Bank manufacturing PMI

Taiwan: October unemployment rate

Authors

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

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