

Asia Morning Bites

BoJ meeting today could start setting out the path towards normalisation. And JP Morgan says it will include Indian bonds in its global index.



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Global Macro and Markets

- **Global markets:** US stocks continued to drop yesterday, though not because investors were starting to take the Fed's rate hike threats seriously. The probability of a further hike this year has slipped back and is now only just over 50%. 2Y US Treasury yields actually fell back 3.2bp yesterday, but 10Y yields rose 8.7bp to 4.494%. Chinese stocks also fell. EURUSD is slightly lower at 1.0660, dropping back from just under 1.0740. The AUD has also dropped back to just over 0.64, nosing below it at one point yesterday. Cable has also softened against the USD, as the Bank of England left rates unchanged. GBPUSD is now 1.229. The JPY, in contrast, has found a little support and has rallied to 147.59 ahead of today's BoJ meeting. 10Y JGB yields continue to move upwards and are now just below 0.74%. Most of the Asia FX pack was weaker yesterday. The KRW propped up the bottom of the pile, weakening by 0.72% to 1339.75. USDCNY pushed back above the 7.30 handle yesterday – so we may see some renewed efforts from the PBoC to keep it on the right side of this level. At the other end of the pack, the INR has rallied in early trading on the news that JP Morgan will include Indian government bonds in its global index. There has been almost total radio silence on this for most of the year, so this announcement could have an outside market

effect. Inclusion into global indices has previously been estimated by some to bring in about \$40bn of foreign investment, though the INR has been extremely robust all year, so it's not as if it needs it.

- **G-7 macro:** There wasn't much on yesterday's macro calendar in the G-7, though weekly US jobless claims figures did look a bit softer, and the Philly Fed survey and existing home sales were also weaker. That's not enough to hang a forecast on, but much more data like this, and doubts will begin to grow about the Fed's recent hawkishness. It is relatively quiet for G-7 macro today, though the Bank of Japan does meet and it is possible that they may flag the persistence of inflation and possible conditions for further policy normalisation even though any actual policy shift at this meeting is not viewed as at all likely (see also below). UK retail sales are about the only other data release of note.
- **Japan:** Consumer price data for August was quite a bit stronger than early Tokyo inflation data suggested. Headline inflation held steady, only edging down to 3.2% YoY in August (vs 3.3% in July, 3.0% market consensus), and core inflation, excluding fresh food and energy, stayed at 4.3% YoY for the second month as expected. Utilities are the main reason for the slowdown (-12.3%) but entertainment (5.0%) and transport & communication (3.3%) rose firmly. Strong entertainment price gains in particular point to private service prices coming under more upside pressures. As core inflation is a better indicator of demand-side inflationary pressures, we think the BoJ will adjust its policy stance before too long, so that high inflation does not hurt growth.
- We think today's BoJ meeting will be quite interesting. Markets expect no change in the current policy settings. But markets will focus on how Governor Ueda elaborates on the recent changes in inflation dynamics and how weak currency effects could have a negative impact on the economy, which could shape BoJ policy. Higher import costs mean that consumers will endure higher price pressures unless wage growth can catch up. We think the BoJ may add some forward guidance to its statement so that it can pave the way for gradual normalization by 1H24. We think the BoJ is likely to bring about another policy change in October, so it is very important to establish a well-communicated path ahead of these anticipated changes.

What to look out for: BoJ policy meeting

- Australia PMI (22 September)
- Malaysia CPI (22 September)
- BoJ policy (22 September)

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