Asia Morning Bites

Rising US Treasury yields continue to weigh on market sentiment ahead of this week's Jackson Hole meeting

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Macro outlook

- **Global**: The sour tone set at the end of last week continued on Monday, as recession fears and rate hike concerns returned to weigh on market sentiment. The S&P500 closed down 2.14%, while the NASDAQ dropped 2.55%. There may be some respite today, as US equity futures are showing signs of a bounce. But Asia will start off defensively today as it catches up with overnight developments. It is no surprise in this environment to see EURUSD push firmly below parity. The USD now buys only EUR 0.9934. Other G-10 currencies have been dragged weaker by the dollar's resurgence. The AUD is back down to 0.6879, Cable is at a 2-year low of 1.1762, and the JPY has risen to 137.60. Asian FX remained under pressure yesterday. Most units lost about 0.4% in value to the USD, though the THB and KRW fell more sharply. USDTHB pushed up above 36.0 while USDKRW gapped up to just under 1340. You can probably place a lot of the blame for all of this on the continued rise in US Treasury yields. 2Y UST yields are now at 3.31%, a rise of 7.6bp yesterday, while the 10Y has poked back above the 3% mark with a 4.2bp rise yesterday (now sits at 3.015%). Like their equity counterparts, bond futures look slightly more constructive today, so we may see a slight pullback and that should help equities and take a bit of steam back out of the USD, if only fleetingly.

- **G-7 Macro**: Eurozone PMIs dominate the G-7 calendar today. The composite PMI for the region dropped to 49.9 in July and is expected to fall to 49.0 in August – a level consistent with economic contraction...recession in other words. US new home sales may also be worth a look. They have fallen to their lowest monthly annualized rate since the 2020 pandemic-induced dip in 2020, and given the economic backdrop, it would be surprising if they didn't fall further.
- **Australia**: PMIs for Australia are already out, and show the service sector struggling. The headline index fell to a contractionary 49.6 from 50.9 in July. The employment index slowed but remained in positive territory at 53.2 reflecting the labour supply issues being faced across much of the sector. There was some more encouraging data on service sector prices. The manufacturing PMI remained in positive territory, but dropped slightly from 55.7 to 54.5.
- **Singapore**: July inflation is out today. Price pressures are expected to pick up further with market participants expecting headline inflation to heat up to 7%YoY. Core inflation meanwhile is forecast to hit 4.7%. The main drivers for the recent surge in prices such as food, utilities and transport are all likely to experience faster price gains. Accelerating inflation will likely keep the Monetary Authority of Singapore (MAS) on alert, and we expect them to tighten policy again at the October meeting.
- **Indonesia**: Bank Indonesia (BI) meets today to discuss policy. BI is widely expected to keep rates unchanged at 3.5% as inflation stays relatively "manageable". Plans to increase the cost of subsidized fuel have been floated around and should this be implemented, we believe it could be a trigger for BI to finally raise rates by the end of 3Q22
- **China:** The 15bp cut in the Loan Prime Rate (LPR) yesterday signalled that the government would like to lift home buying sentiment in 2022. See our note here. At the same time, the media reports that policy banks in China are going to provide CNY200bn in special loans with funds from the Ministry of Finance and the PBoC. With an estimated 225 million sqm of uncompleted housing, and assuming that the construction cost is CNY3000 per sqm, the total cost required to complete unfinished homes is CNY675bn. So, the government's special loan is only enough to deal with around 1/3 of uncompleted homes, unless the average unfinished project is already more than 2/3 completed. We think that some developers sold homes at a much earlier stage of completion, meaning that the special loan pool would need to be bigger to calm the market further. But if this policy enables construction to keep going, without compromising quality of finished units, this could result in an improvement in sentiment as mortgage borrowers see homes completed satisfactorily.
- **Korea**: The consumer sentiment index edged up to 88.8 in August (vs 86 in July). Despite the recent floods, the CSI appears to have improved as asset markets stabilized and gasoline prices continued to decline during the survey period. More importantly, inflation expectations fell to 4.3% in August (vs 4.7% in July) – the first decline in eight months. We believe that the recent price drop in gasoline prices is the main reason for this. Today's results should give the Bank of Korea some comfort ahead of Thursday's rate decision, but this may not last long since we expect inflation expectations to rebound in September. Fresh food prices are already surging due to the recent floods and prices are set to rise even further as we approach the Chuseok holiday season in September. The recent sharp depreciation of the KRW is another concern, and volatility and further depreciation are likely to continue until the Jackson Hole meeting. Verbal intervention and smoothing operations are expected to curb market volatility. We expect the Bank of Korea to end its hiking cycle at 2.75% in October. But if inflation doesn't moderate by September and the weak KRW continues, the possibility of an additional 25bp hike in November will grow.

What to look out for: Jackson Hole

- Japan Jibun PMI (23 August)
- Singapore CPI inflation (23 August)
- Bank Indonesia policy meeting (23 August)
- US new home sales and S&P PMI manufacturing (23 August)
- Thailand trade (24 August)
- US durable goods orders and pending home sales (24 August)
- Fed Kashkari delivers speech (24 August)
- South Korea PPI inflation (25 August)
- Hong Kong trade balance (25 August)
- Bank of Korea policy (25 August)
- US initial jobless claims and GDP (25 August)
- Jackson Hole symposium (26 August)
- Japan Tokyo CPI inflation (26 August)
- US Univ of Michigan sentiment (26 August)

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