

Asia Morning Bites

Rising Japanese core inflation will get the "normalizers" excited again - but elsewhere Yellen sounding a little less dismissive on deposit insurance and ECB's Knot a bit less hawkish than usual help us to end the week on a calmer note



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Global Macro and Markets

- **Global Markets:** The last 24 hours have been mercifully quiet. US stocks crept tentatively higher (S&P 500 +0.3%, NASDAQ +1.01%), but equity futures are close to flat, suggesting that the direction from here on remains a coin flip. US stocks may have taken comfort in comments from Treasury Secretary Yellen, who was a bit less dismissive of further actions on deposit insurance than she was the day before. Chinese stocks had a much better and more convincing day yesterday. The Hang Seng rose 2.34%, while the CSI 300 rose 0.99%. US treasury yields declined again. The yield on the 2Y note fell 10.4bp, while the yield on the 10Y bond was virtually unchanged at 3.427%. EURUSD pushed above 1.09 yesterday, but has not been able to hold onto those increases and is slightly down from this time yesterday at 1.0835, probably as 2Y European bond yields dropped even more than US Treasuries yesterday. That may have stemmed from comments by ECB Governing Council hawk, Klaas Knot, who is reported as suggesting that though a May hike was likely, it was unclear how large it should be (implication, possibly smaller than previous hikes...). The AUD also had some abortive attempts to push higher, and is roughly unchanged now from

yesterday at the same time, after failing at 0.676 a couple of times. Cable also had a similarly unproductive day, though the JPY held onto early gains to sit at 130.74 now. Asian FX had a very good day yesterday, with nearly all currencies making some gains against the USD. Leading the charge, as is so often the case, was the KRW, followed by the other Asian high-beta currency, the THB, with the MYR and CNH shortly behind. The KRW now stands at 1278.

- **G-7 Macro:** The Bank of England hiked rates yesterday by 25bp as anticipated. But our UK economist, James Smith [thinks that this is probably it for this tightening cycle](#). PMI data dominates the G-7 calendar today, along with US Durable goods orders for February.
- **Japan:** Consumer price inflation slowed for the first time in 13 months in February, mainly due to the government's energy subsidy program. Consumer prices rose 3.3% YoY (vs 4.3% in January, 3.3% market consensus) while utilities were down -0.3% YoY in February (vs 14.9% in January). But aside from utilities, service prices have actually risen. The so-called core-core CPI (excluding fresh food and energy) accelerated further to 3.5% in February (vs 3.2 % in January). This is a sign of underlying inflationary pressures and perhaps this is the sign of demand-driven inflation that the BoJ has been waiting for, so long as wage growth can keep up with it. Today's outcome will probably revive market speculation that the Bank of Japan might implement policy normalization sooner than expected. We still do not think incoming Governor Ueda will deliver a surprise at his first meeting in April. But, depending on the outcome of the spring wage negotiations, the BoJ may change its forward guidance at its meeting as early as June. Given the recent market turmoil surrounding the banking sector, the BoJ's move will likely be well communicated with the market before it substantially changes its policy.
- **Singapore:** Singapore industrial production is set for release today. We expect another month of contraction in February, mirroring the struggles in non-oil domestic exports (NODX) as global demand remains soft. We could see industrial production stay weak in the near term and weigh on Singapore's growth prospects.

What to look out for: US durable goods orders

- Malaysia CPI inflation (24 March)
- Singapore industrial production (24 March)
- US durable goods orders (24 March)

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