Asia Morning Bites

Markets react positively to Fed minutes - a bit of an overreaction? Covid cases and movement restrictions rise in China, Japan's PMI contracts and Bank of Korea hikes rates 25bp

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Macro outlook

- **Global markets:** The relevant sentence in the minutes of the Fed's November 1-2 meeting, as far as financial markets need to be concerned is this, "*a substantial majority of participants judged that a slowing in the pace of increase would likely soon be appropriate*". Yes, there was lots of talk about how committed everyone was to achieving the 2% target (though none about whether that target was in fact appropriate), and for the hawks, there is this, "...*with inflation showing little sign thus far of abating, and with supply and demand imbalances in the economy persisting, their assessment of the ultimate level of the federal funds rate that would be necessary to achieve the Committee's goals was somewhat higher than they had previously expected*", which nods in the direction of James Bullard's concerns that rates may have to rise considerably above the market's peak Fed funds assumption of 5%. However, the balance of opinion seems to have been with the more dovish comments, and US equities staged a modest further rally - the S&P500 rising 0.59% and the NASDAQ rising 0.99%. Equity futures are also indicating a slight further gain at today's open. 2Y US Treasury yields dropped back 3.7bp and the 10Y yield declined 6.3bp to 3.693%. All of which left the way open for the USD to retreat considerably. EURUSD is now back to 1.0418 after a day of steady increases and is looking to continue those in early Asian trading. The AUD has risen about a full big figure to 0.6743, Cable has reattained the 1.20 level and is now 1.2072, while the JPY has fallen back below 140 again and is now 139.30. Asian FX was mixed yesterday, with the THB down 0.47% and CNY soft again (7.1605) but today will likely see currency pairs clawing back losses against the USD to keep track with moves in the G-10. A final thought: Are today's moves excessive? To be honest, they do feel a bit much given the fairly even-handed nature of the Fed minutes - there wasn't all that much else going on, so it may be an idea to fade this move today. See also this from James Knightley on how the recent market moves will **not** be what the Fed wants to see.

- **G-7 Macro:** Besides the Fed minutes, yesterday's releases centred on the November purchasing manager indices, which for Europe at least, remained solidly in contraction territory. The US indices were no better, and do indicate that the US economy is beginning to slow down. University of Michigan consumer sentiment showed a slight improvement, but the 1Y ahead inflation expectations figure dropped to 4.9% from 5.1%. October new home sales were surprisingly perky, rising at a 632,000 annual pace, up from 588,000. It's Thanksgiving today in the US and so there is no data out of the US. In the rest of the non-Thanksgiving G-7, Germany's Ifo survey marks the most interesting release. Trading will likely be light heading into the weekend.
- **China**: Covid cases continue to rise across much of the country, and mobility restrictions (lockdowns in all but name) are increasing. This is bound to have an impact on the fourth quarter GDP result, and as a result, could impact the outlook for 2023 GDP estimates which could be adversely affected by a year-end dip like this. Contemporaneous indicators for 4QGDP in China are looking quite bad right now. And it is probably with this in mind that the State Council was reported by CCTV yesterday as looking to get the PBoC to implement another RRR cut "in a timely and appropriate manner". That suggests quite soon – maybe in the next few days.
- **South Korea:** The Bank of Korea has met for its policy decision meeting this morning and has delivered a 25bp hike (7-day repo rate now 3.25%) in line with market expectations. Recently released data suggest that the economy is headed for a contraction, while forward-looking price indicators suggest that inflation will slow further in the coming months. Today's PPI inflation decelerated to 7.3% YoY in October (vs a revised 7.9% in September). The Bank of Korea is also due to release an updated forecast report, with GDP expected to be revised down to around 1.7% (from Aug forecast of 2.1%) and inflation to around 3.3% (from Aug forecast of 3.7%).

What to look out for: Bank of Korea policy meeting

- Japan PMI (24 November)
- Korea BoK policy meeting (24 November)
- Japan Tokyo CPI inflation (25 November)
- Malaysia CPI inflation (25 November)

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