

Asia Morning Bites

China's policy press conference and the Reserve Bank of Australia rates meeting are the highlights in Asia-Pacific today



Asia Morning Bites

Global Macro and Markets

- **Global Markets:** It was a super quiet day in Treasury markets yesterday, with neither 2 nor 10Y US Treasury yields rising more than a basis point. This was despite several dovish Fed speakers, Goolsbee, Bostic and Kashkari, who indicated that the Fed still had a long way to go to get rates down to neutral. The 10Y yield is now 3.749%. Markets are pricing in three more Fed rate cuts by the end of the year, one more than suggested by the Fed's dot plot. The additional 100bp+ of easing over 2025 would take the effective Fed funds rate down to just 2.85% -also a fair bit lower than the Fed indicates. Our terminal fed funds rate is 3.5%, which seems more in line with the soft landing hypothesis than the market expectations. There was more action in FX markets, where EURUSD dropped sharply to 1.1109, reaching as low as 1.1085 intraday before bouncing. This appears to be a "weak-Euro" outcome in response to soft PMI data. And in contrast other G-10 currencies were mostly stronger against the USD. The AUD pushed higher to reach 0.6830. Cable rose to 1.3345, and the JPY was also fractionally firmer at 143.66. Asian FX was on balance a touch weaker. The PHP and IDR propped up the bottom of the pack on Monday. USDPHP has risen to just below 56, while the IDR has risen to 15205. USDCNY is little changed at 7.0521. US stocks were also quiet on Monday. The S&P 500 rose 0.28% and the NASDAQ rose just 0.14%. US equity futures look slightly negative today. Chinese stocks were mixed. The Hang Seng was about

flat on the day, while the CSI 300 made a 0.37% gain.

- **G-7 Macro:** There's not much of interest on the G-7 Macro calendar today. The US publishes July house price data, There is also the Conference Board consumer confidence figures, as well as the Richmond and Philly Fed business surveys. Germany publishes the September Ifo index. Like the ZEW survey, this will probably show a decline.
- **Australia:** The RBA will meet today to discuss policy, though there is almost no chance of a cut. More interesting will be how much, if at all, the discussion has shifted from the August meeting, where there was active discussion about the need for a further rate hike. The risk of a hike seems to have greatly diminished, though it still feels like we are way off any easing. We continue to expect rates to stay on hold until 1Q25 at the earliest.
- **China:** The People's Bank of China (PBOC), China Securities Regulatory Commission (CSRC), and National Financial Regulatory Administration (NFRA) will host a press conference on supporting economic development at 9am today. Combined with previous signals of increasing monetary policy support, we expect them to flag further easing at this press conference, likely in the form of a rate cut and or an RRR cut. This could also be a possible window for policymakers to confirm the long-rumoured cuts to existing mortgage rates, where markets had been speculating cuts as steep as 80bp to existing mortgage rates which could give households some relief.

Given President Xi's recent call for policymakers to strive to achieve the growth target, we've been expecting increased urgency for policy support rollout, and that looks likely to start soon with monetary policy. Given the 50bp cut from the Fed and markets pricing in another 75bp of cuts before year end, the RMB has seen a recovery and should no longer be holding back PBOC easing. We now see room for the PBOC to either implement multiple 10bp rate cuts or a larger rate cut before the end of the year.

The PBOC also cut its 14 day reverse repo rate by 10bp yesterday from 1.95% to 1.85%, which should not be interpreted as a new rate cut. The 14 day reverse repo facility has been dormant the last few months, and the rate adjustment upon resuming the facility ahead of the Golden Week holiday was just mirroring the 10bp cut to the 7 day reverse repo rate made in July.

- **Taiwan:** Taiwan releases its export orders data today, where we are looking for a further recovery of export orders to around 9% YoY in August. The August trade data had previously shown some encouraging signs with a stronger-than-expected and broader-than-expected recovery of exports, and we will watch to see if this is also reflected in new orders.
- **South Korea:** Producer price inflation eased to 1.63% YoY in August (vs 2.6% in July, 2.1% ING). Severe weather conditions pushed up fresh food prices, but this was offset by lower global commodity prices. In particular, manufactured goods, such as petroleum and chemicals, have contributed significantly to headline inflation as they are a large component of the producer price index basket. On a monthly basis, producer prices dropped -0.13%MoM nsa in August. Coal and petroleum declined -4.0% while fresh food jumped

5.3%. As pipeline prices ease, more downward pressure will be put on consumer prices.

As consumer prices already recorded a 2.0% YoY rise in August and are expected to drop further in September, the BoK's confidence on price stabilization will grow thus the probability of an October rate cut rises. With consumer prices already down to 2.0% y/y in August and expected to fall further in September, the BoK's confidence in price stabilisation will grow and we believe the probability of an October rate cut will increase.

What to look out for: South Korea PPI, Japan Jibun bank manufacturing PMI, Australia cash rate target

September 24th

S. Korea: August PPI

Japan: September Jibun bank manufacturing & composite PMI

Australia: 24 September RBA cash rate target

Taiwan: August export orders

US: September Conference Board consumer confidence

Germany: September Ifo business survey

September 25th

S. Korea: September consumer confidence

Japan: August PPI services

China: 1Y MLF rates

Australia: August CPI

Taiwan: August industrial production

Philippines: August budget balance

S Korea: August retail sales (25th – 30th September)

September 26th

Australia: August job vacancies

Singapore: August industrial production

Japan: August Final machine tool orders

US: 2Q T GDP, August Durable goods orders

September 27th

Japan: September Tokyo CPI

S Korea: October business survey manufacturing

China: August industrial profits

US: August core PCE index, September U. of Mich Sentiment

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