

Asia Morning Bites

Busy day ahead in Asia with China's MLF and Australian inflation



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Global Macro and Markets

- **Global Markets:** Softer-than-expected confidence data from the US helped to weigh on US Treasury yields. 2Y UST yields fell 4.9 basis points, while the 10Y yield dropped 2.1bp to 3.728%. That occurred despite the NY Fed's Perli saying that they were not yet near the end of the Fed's balance sheet run-off, suggesting quantitative tightening (QT) still has some way to run. EURUSD recovered the ground lost on Monday and rose to 1.1184. That has lifted the AUD to just under 69 cents and Cable to 1.3420. The JPY has also strengthened, and USDJPY has declined to 143.09. Other Asian FX also made gains on Tuesday. The MYR resumed its appreciation, and the SGD also made it into the top half of the APAC performance table. USDSGD is now down to 1.2830. USDCNY is also looking robust at 7.0317 despite yesterday's interest rate cuts. [See Lynn Song's note here.](#)

US stocks made modest gains on Tuesday. The S&P 500 rose 0.25% and the NASDAQ rose 0.56%. Both indices are up more than 20% ytd. Chinese stocks loved the rate cuts and other supportive measures yesterday. The Hang Seng and CSI 300 both rose more than 4%.

- **G-7 Macro:** There were big falls in the Conference Board's consumer sentiment indices for September. The headline index dropped from 103.3 to 98.7 while the expectations index fell to 81.7 from 82.5. While this looks bad, this index has been bumping along at similar levels for some months now, and the trend level hasn't done much despite these latest

disappointing figures. [James Knightley has written more on this and what it may portend for the US labour market in this note.](#) Today is very quiet, with just US August new home sales to consider.

- **Australia:** August CPI inflation data will decline from the 3.5% YoY rate in July. The consensus believes it will fall to 2.7%, which is within the RBA's 2-3% target range, and at odds with the Reserve Bank's belief that inflation won't fall sustainably within the target range until 2026. We don't expect it to fall as far this month. In any case, much of this decline will likely reflect lower retail gasoline prices due to the decline in crude oil prices. Core measures of inflation may fall far less, so the market response may not be substantial.
- **China:** The PBOC is set to announce its medium-term lending facility rate this morning. After yesterday's monetary policy stimulus package, we expect a corresponding cut of at least 20bp in the MLF today. Similar to what we saw in July, we think there is a decent chance the cut to the MLF comes in larger than the cut to the 7-day reverse repo rate, and we are looking for the MLF to be cut to 2.0% today.
- **Taiwan:** Industrial production data will be published for Taiwan in the afternoon today. After strong July growth of 12.3% YoY, we are looking for a moderation of growth to 8.5% YoY in August.
- **South Korea:** The composite consumer sentiment index fell to 100 in September from 100.8 in August, the second consecutive decline. Households' spending plans and the current index and outlooks for domestic economic conditions deteriorated further while the other three subcomponents remained unchanged compared to last month. Inflation expectations edged down to 2.8% in September (vs 2.9% in August).

Today's CSI results should support an October Bank of Korea rate cut. Household spending will likely weaken while inflation expectations continue to ease, so the BoK's policy focus will likely shift from inflation targeting to supporting growth. However, the outlook for house prices rose for the fourth consecutive month, thus the BoK's pace of easing will be very gradual. We expect the BoK to cut 25bp in October.

What to look out for: South Korea consumer confidence, Japan PPI services, Australia CPI

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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