

Asia Morning Bites

Japan's inflation dips below expectations. Philippine trade data and Singapore industrial production are due today



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Global macro and markets

- **Global markets:** Despite a very strong 4Q23 GDP print from the US (see more below), Treasury yields dropped back yesterday. This probably owes nothing to Treasury Secretary Yellen's protestations that high GDP is not an inflationary threat (controversial, but the PCE numbers were on her side). 2Y yields came off by 8.7bp while the 10Y Treasury yield fell 5.8bp to 4.118%. We can't put the fall in yields down to equity weakness either, as both the S&P 500 and NASDAQ made further modest gains yesterday, though they have been looking overbought since last November (based on relative strength indicators). Equity futures look quite negative today, so we may be looking at a correction ahead of the weekend. Chinese stocks continued to be lifted by talk of support and the RRR cuts. The Hang Seng and CSI 300 both rose by about 2% yesterday. EURUSD declined to 1.0845. G-10 currencies were a little weaker over the last 24 hours. USDCNY moved a little higher, rising to 7.1739, and there were bigger losses from the IDR and PHP.
- **G-7 macro:** The ECB meeting yesterday poured cold water on the idea of imminent rate cuts, leaving the communication unchanged from previous meetings. We still believe that they may cut at the June meeting. [Here is a longer note on the decision.](#)

As mentioned, the [4Q23 US GDP release smashed expectations by rising 3.3%](#) (annualized

rate) following on from 4.9% in 3Q23. What may have helped markets find an excuse for bonds to rally was the second consecutive quarterly core PCE reading of 2.0%. Monthly PCE data released today is expected to show the December core PCE rising by 0.2% MoM, and the core PCE inflation rate declining to 3.0% from 3.2%.

- **Japan:** Tokyo CPI inflation slowed faster than expected to 1.6% YoY in January (vs 2.4% in December, market consensus 2.0%) and core inflation excluding fresh food also came down quite meaningfully to 1.6% (vs 2.1% in December, market consensus 1.9%). A high base related to hotel fees last year was the main reason for the slowdown, but we also saw price declines for household goods and apparel. On a monthly comparison, CPI fell -0.1% MoM in January. Goods prices stayed flat while services prices dropped -0.2% - the first fall since December 2022. Today's outcome is disappointing for hawkish BoJ bets. The probability of a policy change in March seems off the table for now. We have argued that base effects related to hotel fees and utility subsidy programs would likely create monthly volatility until March. So, the BoJ will wait to gauge the underlying trend of the inflation path for the next few months. We expect inflation to rebound above 2% in February and then stay around the 2% level for a while. We also believe another year of solid wage growth will likely buoy inflation pressures, so our call for a rate hike in June remains in place.
- **Singapore:** December industrial production data will be reported today. We expect industrial production to rise marginally by 1% YoY, up roughly 2% from the previous month. Industrial production recently snapped a string of negative growth, tracking the bounce in non-oil domestic exports (NODX). For 2024, we expect industrial production to manage some expansion but ultimately take its queue from the fate of NODX.
- **Philippines:** December trade data is set for release today. Imports and exports are forecast to post modest growth but the overall trade balance is expected to stay in deep deficit. We expect the trade deficit to slide to roughly \$4.5bn, suggesting a sustained current account deficit and pressure on the PHP to depreciate. We can expect this pressure on the peso to persist into 2024 and for as long as the current account is in deficit territory.

What to look out for: Philippine trade and Singapore industrial production

- Japan Tokyo CPI inflation (26 January)
- Philippines trade (26 January)
- Singapore industrial production (26 January)
- US PCE deflator, pending home sales and personal spending (26 January)

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