

Asia Morning Bites

China's politburo comments show the authorities shifting gears in their efforts to stabilize the economy. And there is also an LDP leadership race in Japan today



Asia Morning Bites

Global Macro and Markets

- **Global Markets:** US Treasuries continued to move higher yesterday, though unlike yesterday when auction indigestion was the obvious culprit, there are no obvious new drivers for this latest move. 2Y Treasury yields rose 6.9 basis points, though there was a smaller increase for 10Y yields which rose only 1.1bp, taking the 10Y yield to 3.796%. Despite the higher US yields, EURUSD managed to make back some of the ground lost the day before and is back up to 1.1175 now. That has also lifted the AUD to a shade below 69 cents and Cable has pushed up to 1.3411. The JPY did not track the rest of the G-10 and is slightly weaker at 145.07. The KRW had a very strong day yesterday, appreciating 1.38% to 1317. USDCNH was also very strong, pushing down through 7.0 on the latest stimulus announcements. SE Asian FX was weaker but will likely catch up with the G-10 moves this morning. US stocks had a moderately positive day on Thursday. The S&P 500 and NASDAQ rose 0.4% and 0.6% respectively. Chinese stocks had a fabulous day. Both the Hang Seng and CSI 300 rose more than 4%. That takes the CSI back into positive year-to-date growth.
- **G-7 Macro:** There wasn't a lot of G-7 macro news to get your teeth into yesterday. We had some further dovish comments from the Fed's Lisa Cook, who said that she had

“wholeheartedly” supported the recent 50bp cut. 2Q24 GDP was unchanged at 3.0% in the third revision, and the core PCE index rate was also left unchanged at a 2.8% annualized QoQ rate. Jobless claims were fairly steady, though there was a little upward drift to the continued claims series. Today is a bit more interesting, with the main focus likely to be on the core PCE price index for August. The consensus 0.2% MoM reading will likely deliver a slight increase in the year-on-year rate from 2.6% to 2.7%, subject to any rounding issues. We also get University of Michigan sentiment indices and inflation expectations. Europe also publishes a lot of confidence data today, and the ECB publishes inflation expectations numbers as well.

- **China:** Comments from yesterday's politburo meeting have confirmed that the authorities are shifting gears in their efforts to boost the economy and stabilize confidence. Holding the meeting in September rather than waiting until the normally scheduled December meeting is in itself a signal that the authorities are willing to take more urgent action to achieve the 5% growth target. We saw a more aggressive than expected policy package from the PBOC this week and it is reasonable to expect other policies will soon follow.

We will likely see fiscal policy support measures pick up soon, as the meeting discussed *"increasing the intensity of countercyclical adjustment of fiscal and monetary policies, ensure necessary fiscal expenditures, issue and use long term bonds and special local government bonds in order to better drive government investment"*. It also continued to mention stabilising the real estate market via controlling new construction, improving quality, and increasing loan support for whitelisted projects. Fiscal policy targeting investment is probably the most direct and quickest way to support GDP growth, but for longer-term sustainability, it would be beneficial to funnel more resources toward supporting household consumption as well.

- **Japan:** Tokyo consumer inflation cooled to 2.2% YoY in September (vs 2.6% in August, 2.2% market consensus) and core inflation excluding fresh food also eased to 2.0% YoY (vs 2.4% in August, 2.0% market consensus). Inflation fell -0.2% MoM sa, the first decline in five months, with goods prices down -0.6% and services prices unchanged. We don't think the slowdown in inflation in September will have much impact on the BoJ's decision, as the outcomes were mostly in line with the market consensus and the slowdown was mainly driven by the government's subsidy programme, but as Governor Ueda specifically mentioned at the last meeting, October inflation will be the key to watch.

Other than the Tokyo CPI number, markets will closely watch the ruling Liberal Democratic Party's leadership election. There are three strong contenders in the race, with Mr Ishiba seen as hawkish on monetary policy, Mr Koizumi as neutral and Ms Takaichi as dovish. The results of the first round will be announced at 14:20 local time. If there is no majority, there will be a run-off between the top two candidates, with the result to be announced at 15:30.

- **South Korea:** The Composite Business Sentiment Index (CBSI) in all industries fell to 91.2 in September (vs 92.5 in August), falling for the third consecutive month. As for the outlook, the index also edged down to 92.6 (vs 92.7 in August). Sentiment in the manufacturing sector improved but was more than offset by the decline in the non-manufacturing sector. In the manufacturing sector, new orders and financial conditions are expected to improve,

while inventory conditions are expected to deteriorate, supporting our view that the export-led recovery will continue. For non-manufacturing, financial conditions declined the most, indicating that firms are suffering from tight monetary conditions and sluggish demand. Taken together with yesterday's softening of consumer sentiment data, the overall survey data point to a cloudy outlook, particularly for domestic growth.

Ahead of the Bank of Korea's meeting in two weeks, August Industrial production, September trade and September CPI results will all be released. We expect inflation to ease while domestic demand deteriorates, which should support the BoK's rate cut at its October meeting.

What to look out for: September Tokyo CPI, China industrial profits, US core PCE index

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

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

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