

Asia Morning Bites

Selling momentum may be easing, but a trend reversal looks optimistic



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Macro outlook

- **Global Markets:** Slightly smaller declines in US stocks overnight may indicate that the momentum of the current stock selling spree may be running out. And certainly, relative strength indicators are pointing to stocks entering an oversold area. We are also sitting at approximately the June 2022 lows, so any further downward push may need a bit more fresh news, though if these levels are breached, it then opens up a lot more downward space. The S&P500 finished down 1.03% yesterday, the NASDAQ down 0.6%. Equity futures are signalling a tentative increase on today's open. The USD continues to strengthen against almost everything. EURUSD is now 0.9614, though again, the moves were more muted than the previous session. Cable continues to look extremely dicey, dropping to 1.035 at one stage yesterday, though clawing back to 1.0718 currently on some comments from HM Treasury that there may be a plan to come up with a more coherent fiscal adjustment plan than what was delivered at the recent budget. It looks like markets are giving sterling the benefit of the doubt for now, though any mistakes will likely be punished severely and they may not wait until November for the new plan. The AUD also slid further yesterday, reaching 0.6465, while the JPY is back within spitting distance of the 145 level that led to intervention last time. So there may be a bit of hesitancy around this level,

though ultimately, we see it being breached once more. Asian FX played catch up with Friday's G-10 losses to the USD on Monday, The KRW and THB fell the most, though the INR has also gapped higher and is now at 81.62. US Treasury markets keep weakening, and yields on the 2Y note have risen a further 14bp to 4.34%, while the 10Y yield has shot up 24bp to 3.92%, clearly eyeing the 4% level. Why not? Once again, the UK Gilt market was terrible, with 10Y Gilt yields rising just under 42bp to 4.24%. That was again worse than struggling Eurozone peripheral bond markets.

- **G-7 macro:** US housing data dominates the calendar today. We get house price data for July, which is still showing month-on-month gains, even if the annual rates of growth are coming off a bit. And we also have August New Home Sales, which at a 500,000 annual rate really are beginning to look quite tepid. Conference Board consumer confidence and durable goods orders complete the G-7 macro calendar today with nothing of note out of Europe, barring possible emergency central bank meetings and panicky government messaging.
- **China:** USDCNY and USDCNH are approaching 2019 and 2020 highs. But this time, there is an extra factor - a very weak EUR. So, we cannot rule out USDCNY and USDCNH passing 7.20 as aggressive Fed hikes stand out against the PBoC's accommodative rate policy. The main worry of such a weak yuan is capital outflows. If there were any signal of such outflows becoming meaningful, the PBoC would first increase the cost of shorting the yuan offshore.
- **Korea:** According to the Bank of Korea's consumer sentiment survey, inflation expectations appear to have stabilized slightly for the second month in a row. Inflation expectations over the next 12 months have come down slightly to 4.2% in September from their recent peak of 4.7% in July. The Bank of Korea doesn't seem to be worrying too much about anchoring consumers' expectations for now. However, headline inflation will likely remain in the 5- 6% range until the year-end, increasing the risk of rising food prices and further currency depreciation. Therefore, we believe that the BoK will front-load its rate hikes to better contain inflation, and we look for them to take a 50bp step at their October meeting.

What to look out for : China PMI

- South Korea consumer confidence (27 September)
- China industrial profits (27 September)
- US durable goods orders (27 September)
- US Conference Board consumer confidence and new home sales (27 September)
- Australia retail sales (28 September)
- Japan leading index (28 September)
- Bank of Thailand meeting (28 September)
- US mortgage applications and wholesale inventories (28 September)
- South Korea business survey manufacturing (29 September)
- US initial jobless claims, 2Q GDP and core PCE (29 September)
- South Korea industrial production (30 September)
- Japan labour market data (30 September)
- China official and Caixin PMI manufacturing (30 September)
- India RBI meeting (30 September)
- Hong Kong retail sales (30 September)
- US personal income, personal spending and core PCE (30 September)
- US University of Michigan sentiment (30 September)

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