Asia Morning Bites

Tokyo inflation data give the JPY an early boost. Korean business sentiment dips.

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Macro Outlook

- **Global Markets**: China is still out on holiday until next week, so no stock action to report there, though Hong Kong is back and the Hang Seng put in a solid performance yesterday, opening up and making further gains over the session. US stocks also did well, buoyed by stronger than expected GDP data, though as James Knightley's note on this reveals, there are worrying signs of a slowdown ahead buried under the headline number. US Treasury yields also got a lift from the GDP figure, with 2Y and 10Y bond yields rising 5.8 and 5.3 bp respectively. The 10Y now sits at 3.495%. The EURUSD has pulled back below 1.09, but could just be a temporary departure, as it looks to be back on a rising trend again. Other G-10 currencies are looking reasonably firm. And the JPY has opened stronger this morning after stronger-than-expected Tokyo CPI data. Other Asian FX had a solid day yesterday, led by the Offshore Renminbi, which is at 6.733 today ahead of China's return to markets next week.
- **G-7 Macro**: As mentioned above, the main news yesterday was the 2.9% annualised GDP QoQ growth from the US in 4Q22. Personal consumption slowed to 2.1% from 2.3%. Gross private investment rose only 1.4%, within which was a 3.7% decline in business equipment investment and a 26.7% fall in residential investment. Durable goods orders for December

were also stronger than expected, though here too, there were some more negative signals beneath a strong headline figure. Today, we get PCE deflator figures for December, though as we have already got the full 4Q deflator figures from the GDP data, there shouldn't be any real news here. The pre-GDP consensus was for a drop in the core deflator to 4.4%YoY, with a slight pick up in the MoM rate from 0.2% to 0.3%. The University of Michigan consumer sentiment and inflation expectations figures are also due later.

- **Japan**: Tokyo CPI for January came out with an upside surprise. Headline inflation accelerated more than expected to 4.4% YoY (4.0% in December and consensus), and core inflation - excluding fresh-food also rose to 4.3% (vs 4.0% in December, 4.2% consensus). Looking at the details, the surprise mainly came from fresh food prices, which rose 6.4% (vs 4.4% in December) while utilities rose the most by 22.8%. We think that consumer prices are expected to come down slowly from February as the government's energy subsidy program will start to work.

  The JPY looks like responding to the growing market expectations for the Bank of Japan's policy shift due to a higher-than-expected inflation outcome. Based on the minutes of the BoJ meeting in January, the majority of the board was still in favour of keeping the current level of easing policy and monitoring the policy adjustment in December, but at the same time, there is also a growing view that the current policy should be revisited sometime in the future. We still think the policy change is a long way off. The Spring salary negotiations are key to watch as wage growth is a prerequisite for sustainable inflation.

- **South Korea**: The Bank of Korea's business survey results show that both manufacturing and non-manufacturing have a dim outlook for their businesses. The January outlook index fell to 65 from 68 for manufacturing and 70 from 72 for non-manufacturing. We believe that from now on, manufacturing sentiment will rebound due to China's reopening, but non-manufacturing sentiment is expected to stagnate for a while as domestic demand conditions continue to deteriorate.

What to look out for: US University of Michigan sentiment

- Japan Tokyo CPI inflation (27 January)
- Australia PPI inflation (27 January)
- US personal spending and University of Michigan sentiment (27 January)

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