

Asia Morning Bites

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



Asia Morning Bites

Source: shutterstock

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)

Author

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.