

Asia Morning Bites

China's macroprudential changes help propel the CNY against a much weaker USD backdrop as the pivot story gets a nudge from the Bank of Canada



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Macro outlook

- **Global Markets:** A disappointing revenue forecast from Facebook parent, Meta, helped push the NASDAQ down more than 2% yesterday, though there was a much smaller decline from the S&P500, which fell only 0.74%, holding just above support levels. Futures markets indicate a return to growth today. Yesterday's Asian equity markets were also mostly positive, and despite the US moves overnight, the mood looks fairly positive today. This could also set up Asian FX for another positive day after currencies made strong gains yesterday. The THB and CNY led the charge in Asia, with the CNY surging 1.33% taking it all the way back to 7.1730 from about 7.30 earlier in the session. Reuters reported that state-owned Chinese banks were sellers of USD on Tuesday to support the yuan, which suggests that this may also have been what happened yesterday. And there were also policy measures from the PBoC which also helped (see China section below). The USD was weaker across the board after the Bank of Canada raised rates only 50bp – lower than the market had been expecting – citing recession fears. The knock-on from this dragged down implied rates in the US and pulled down the 2Y US Treasury yield by 5.6bp, and the 10Y yield by 9.9bp, which is now only just above 4%. EURUSD was another beneficiary of the lower US

yield environment, pushing back above parity for the first time since late September and ahead of today's ECB meeting. The AUD is back to 0.6490 after a massive surge, and Cable has risen to 1.1631, its highest in more than a month. The USD weakness was also evident in the JPY, which returned to 146.22. The market will no doubt be awash with speculation about whether this represents part of the “pivot” story, which some elements have been desperate to see unfolding. Next move – the Fed. They can either quash any such thoughts or, as it seems to have been doing recently, kindle them with some encouraging noises even as it hikes rates by 75bp next week (03 November). We will see...

- **G-7 Macro:** Besides the Bank of Canada decision yesterday, it was a quiet day, with only US new home sales for September worth much of a look, and they were actually a fair bit better than had been expected. The September US trade figures were also out and showed the deficit widening back out to -USD92.2bn, which also won't have helped the USD. Today, the ECB takes centre stage, and they are expected to raise the refi rate by 0.75% to 2.0%. Later on, we get the advance 3Q GDP release from the US. Bloomberg consensus estimates put this as rising 2.4% (saar), bringing the technical recession to an end, but maybe providing some pointers at a looming “non-technical” recession in the coming quarters.
- **China:** The PBoC, China's central bank, raised its macro-prudential parameter for cross-border finance from 1.0 to 1.25 yesterday. The last time PBoC implemented an increase of this parameter was in March 2020 when the yuan depreciated to over 7.1. Back then, the yuan peaked a little later (May 2020). During that time, State-owned enterprises (SOEs) with offices offshore (e.g. Hong Kong), sent more USD to onshore parent companies, which would then convert this into yuan. Some converted USD to yuan offshore and sent yuan onshore. The result was the same, namely that there was more demand and therefore, a stronger yuan. The PBoC is now using the same tool. As noted above in the section on global markets, this move comes against a backdrop of uncertainty about the Fed's ongoing rate hike speed and Fed forward guidance next week will be important for the yuan's coming path.
- **South Korea:** GDP recorded a 0.3%QoQ (sa) gain in 3Q22 (vs 0.7% in 2Q22). Reopening-boosted pent-up consumer spending slowed while investment showed a more resilient recovery. Based on the grim outlook for consumption and exports from recently released data, we maintain our view that the economy will experience a moderate recession early next year.

What to look out for: ECB meeting and US GDP

- South Korea GDP (27 October)
- China industrial profits (27 October)
- ECB meeting (27 October)
- US durable goods, initial jobless claims and 3Q GDP (27 October)
- Tokyo CPI inflation (28 October)

- Australia PPI inflation (28 October)
- Taiwan GDP (28 October)
- US personal spending, core PCE and Univ of Michigan sentiment (28 October)

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