

Asia Morning Bites

Australia's August CPI inflation report should show inflation rising again. The fall in Chinese industrial profits may be moderating



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Global Macro and Markets

- **Global markets:** For a change, US Treasury yields didn't rise yesterday. Nor did they fall particularly. The yield on the 2Y UST was down just 0.4bp to 5.121%, while that on the 10Y bond rose just 0.2bp to leave it at 4.536%. This was despite Neel Kashkari, a voter on the FOMC this year, saying that he thought even a soft-landing scenario would probably require one more rate hike this year. Michelle Bowman talked about the need to cool the economy to bring rents down in line with wage growth, though she did not explicitly outline a path for rates. But she implied more was needed. With this, it feels as if markets are listening and choosing to believe that in the end, the Fed will not carry through on their threats to raise rates again, either because the threat lacks credibility, or because they believe that the growth and inflation evidence will turn sufficiently to make it unnecessary. It's a tough call to make and leaves upside as well as downside risk. Kashkari and Bowman are both due to speak again today.

US Stocks cooled on Tuesday. The S&P 500 dropped 1.47% while the NASDAQ fell 1.57%. Equity futures are looking mildly positive. It was also another off-day for Chinese stocks. The Hang Seng fell 1.48%, while the CSI 300 fell 0.58%.

The risk-off sentiment may be helping the USD, which has pushed even lower overnight, dropping to 1.0570. The AUD has declined below the 64 cent level, though may get a boost from CPI inflation data later on today. Cable has dropped to 1.2148, and the JPY has risen to 149.07, a level at which you have to think there could be some more verbal intervention (Finance Minister Suzuki has already waded in) and close to a level where physical intervention may occur. The CNY has held roughly level at 7.3112, though the rest of the Asia pack was weaker against the USD. The KRW and THB, together with the IDR were the weakest currencies in the region yesterday.

- **G-7 macro:** US new home sales fell a little more than expected in August, dropping 8.7% MoM to a 675K annual pace. The Conference Board consumer confidence index was down slightly, breaking down into a slightly stronger present situation response, but a sharply weaker expectations survey. Germany also releases consumer confidence figures from GfK today. The only US data of note is the August durable goods orders and shipments figures.
- **Australia:** A combination of base effects wearing off, and higher gasoline and food prices will take Australia's monthly inflation rate for August back up again after the surprising decline in July. The inflation rate should push back from the July 4.9% YoY rate to a little over 5%. The consensus estimate sits at 5.2%, which is not far from our estimate of 5.1%. While this does not immediately threaten the market's view that the RBA has peaked in its rate cycle, a few more results like this, plus some economic resilience may spur thoughts that there is still one more hike to come. We certainly are not ruling another hike out.
- **China:** Industrial profits figures for August are released this morning. The year-on-year decline in this series has been moderating, and we expect this to continue, though probably still leaving profits down from a year ago.

What to look out for: Australia inflation

- Australia CPI inflation (27 September)
- China industrial profits (27 September)
- Japan machine tool orders (27 September)
- US durable goods orders and MBA mortgage applications (27 September)
- Australia retail sales (28 September)
- US initial jobless claims, personal consumption, pending home sales (28 September)
- Fed's Powell, Goolsbee and Barkin speak (29 September)
- Japan Tokyo CPI inflation and labor report (29 September)

- Thailand trade (29 September)
- US University of Michigan sentiment, personal spending (29 September)

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