

Asia Morning Bites

Volatile markets tee-up targets for today's trading



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Macro outlook

- **Global Markets:** In line with yesterday's signal from equity futures, US stocks opened up yesterday, but rapidly gave up much of their early gains. A slew of hawkish Fed comments wouldn't have helped, but this is also becoming part of the wallpaper now. The S&P finished down 0.21%, though the NASDAQ clung onto more of its earlier gains and ended up by 0.25%. Equity futures are again signalling a modest gain at today's open. The mixed equity backdrop did not provide much solace for the EUR, however, which slid further against the USD to 0.9585, maybe hurt by the apparent sabotage of gas pipelines from Russia. Cable is hovering just above 1.07 now, though failed to hold levels above 1.08 yesterday. The AUD is also down, dropping to 0.6425, while the JPY has crept a little higher and is now 144.82 – only just below the bank of Japan and Ministry of Finance's 145 red-line. That line could be targeted today. In the Asian FX space, the CNY had another soft day yesterday and is up to 7.1761 now. We are probably due a much stronger-than-expected fix any time now to try to slow its depreciation ahead of the 7.20 level. The PHP also took a beating, gapping higher, weakening further and sitting just under 59 currently. Next stop 60? The KRW bucked the weakening trend, making small gains as speculation over Bank of Korea intervention gained ground. 2Y US Treasury yields actually pared their recent increases yesterday, falling 5.2bp to 4.283%, though there were more yield increases in the 10Y bond which rose 2.1bp to

3.945%, putting 4% within reach. On the whole, though, today looks like it is shaping up to be “rangey”, rather than directional, though there are clearly a few nearby targets that markets may take aim at.

- **G-7 Macro:** Yesterday's data flow contained a few surprises. US new home sales for August were much stronger than expected, rising at a 685,000 annual pace, though the July house price index showed a month-on-month decline of -0.44% (S&P Case Shiller figures the FHFA house price index also fell by 0.6%MoM). Durable goods orders came in soft, much as expected, though the Conference Board consumer confidence survey unexpectedly rose, which is odd given the rising rates backdrop. Today, we get more housing data from the US in the form of pending home sales and mortgage applications. European consumer confidence figures from Germany and France complete the G-7 data picture for the day.
- **China:** The People's Bank of China (PBoC) will increase the reserve ratio from 0% to 20% from today when banks sell USD forwards to their customers. History tells us that this is not an effective tool to stop yuan depreciation. On 6 August 2018, after the same policy was implemented, the yuan continued to depreciate, from around 7.0 to close to 7.2. But we can still refer to the policies for 2018-2019 for today's reference. The sale of USD by State Owned Enterprises in the offshore market in 2018/2019 is one of the operations that could be replicated later on if the yuan continues to weaken.
- **Australia:** August retail sales are forecast to rise 0.4% after the outsize 1.3% MoM gain in July. The data is released at 0930 SGT/HKT. Anything short of an outright decline suggests that the Australian economy is still running strongly, which may provide the Reserve Bank of Australia with more of a headache as it attempts to squeeze inflation out of the economy. Recent conjecture of a slowdown in the pace of RBA tightening may come under some pressure.
- **India:** The 2Q22 current account deficit, which is due for release at some point over the rest of this week should show a substantial widening from the -\$13.4bn reading for 1Q22, thanks mainly to higher imported energy prices, though also not helped by weakening external demand for India's exports. The INR, which is already looking very weak, could slide further on the news.

What to look out for: China PMI

- 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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