

## Asia Morning Bites

CNY rises again as USD finds renewed support ahead of next week's FOMC meeting



## Asia Morning Bites

Source: shutterstock

### Macro outlook

- **Global markets:** Expectations for Fed tightening continue to be pared back ahead of next week's FOMC meeting. The May 23 Fed funds contract implied rate is now 4.74%. It was more than 5% earlier this month. This has also pulled back yields on Treasuries. 2Y Yields fell 13bp yesterday. 10y yields are now 3.919% after dropping 8.4bp overnight. There don't seem to be any obvious catalysts for this. It is the blackout period so there are no Fed speakers. Falling reverse repo usage may be an indicator that the Fed could at least slow the pace of QT, but other than that, it looks mostly like speculation ahead of the FOMC meeting for some "pivot" hints. Despite the softer yield environment, the USD has caught a small bid and has pushed back below parity with the EUR, maybe benefiting from a softer equity backdrop too as the NASDAQ had another bad day ( -1.63%), following some softer sales guidance from Amazon. Equity futures are also still looking soft, so the current sentiment looks likely to persist through today. The USD was slightly stronger against most of the G-10 currencies, though the JPY has held onto the ground it made yesterday. Asian FX is split, with the CNY bouncing higher after its plunge yesterday, weakening back to 7.229. The KRW and TWD, both of which topped the Asian FX pack yesterday will likely soften into today's trading.

- **G-7 Macro:** As widely predicted, the ECB hiked the refi-rate by 75bp yesterday, taking it to 2%. [This note](#) From our Head Of Macro Research, Carsten Brzeski, summarises the decision and press conference. But in short, the ECB is not done with hiking yet as it moves closer to a restrictive rate setting. We also had 3Q22 US GDP data yesterday, which delivered a bigger-than-expected bounce back of 2.6% (saar). Though as our Chief US Economist, James Knightley states, "[the outlook is deteriorating rapidly](#)". Today, we get preliminary October inflation data from Germany, which may continue to creep higher according to the consensus view. 3Q22 GDP for Germany is also released and should register a decline from the previous quarter, taking Germany one step closer to an official recession. US September personal income and spending data don't add much to the stock of macro knowledge and can probably be glossed over, though the University of Michigan consumer confidence data and inflation outlook will be worth a look. And finally, the BoJ meets today. As usual, nothing is likely to happen here, especially now the JPY is off its recent highs (see below).
- **Japan:** Headline Tokyo CPI inflation rose quite sharply to 3.5% YoY in October (vs 2.8% in September, market consensus 3.3%). The core inflation rate excluding fresh food also hit 3.4%, the highest level since 1989. We don't think this morning's much faster rate of inflation will change the BoJ's policy decision today. The BoJ takes a different view than the ECB. If inflation is not driven by demand-side factors, they will not change the easy policy stance and it seems like they believe this will maintain their credibility. Meanwhile, PM Kishida announced a 29.1 trillion yen extra budget. Including local government spending, the number adds up to 71.6 trillion yen.
- **South Korea:** The authorities continue to calm down money markets by providing easier measures on policies. The BoK also eased some of its micro-policy measures. The BoK will temporarily (for three months starting Nov 1st) accept bonds issued by banks and nine state-owned companies such as KEPCO and KOGAS, as eligible collateral for banks borrowing money from the central bank. The plan to raise the Liquidity Coverage Ratio (LCR) from 70% to 80% will be postponed by three months to May 2023. The BoK will also carry out a temporary RP (until the end of January 2023) with an estimated amount of 6 trillion KRW. The government also announced plans to ease mortgage terms from early next year. We think this will help ease market nervousness, but the housing market will continue to cool for the time being given that mortgage rates are now reaching 7%.

## What to look out for: US sentiment and core PCE

- Tokyo CPI inflation (28 October)
- Bank of Japan policy meeting (28 October)
- Australia PPI inflation (28 October)
- Taiwan GDP (28 October)
- US personal spending, core PCE and Univ of Michigan sentiment (28 October)

## Authors

### Robert Carnell

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

### Min Joo Kang

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto: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 <http://www.ing.com>.