Asia Morning Bites

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

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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)

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