

## Asia Morning Bites

Powell's tough message on inflation upsets equities - bonds more resilient



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### Macro outlook

- **Global Markets:** Fed Chair, Jerome Powell did what he needed to do last Friday at Jackson Hole, and that was to make it clear that the Fed's over-riding priority was to get inflation down...not give assurances that they would be gentle with markets, not hint that rates might come quickly down once they'd peaked. All these things might be true, but he would have been shooting himself and the economy in the foot if he had undermined his comments on inflation fighting, with remarks that would have loosened, not tightened financial conditions. So at least as far as this author is concerned, he gets full marks for the message. Equities were less impressed. The S&P500 fell 3.37%, and the NASDAQ came off 3.94%. Their gains last week look ill-judged through the prism of history. Further sharp losses look likely at the start of trading today judging by equity futures. The rise in US Treasury yields was less dramatic, but the bond market has, as is often the case, had a more realistic assessment of the economy and the Fed than the equity markets for some time. 2Y US Treasury yields went up only 3.1bp, though they were up closer to 6bp at one point before easing back. 10Y yields rose only 1.5bp to take them to 3.041%. Despite a spike to 1.009, EURUSD went with higher UST yields and falling risk sentiment and declined to 0.9937 and looks to be heading lower in early Asian trading. The AUD has followed the

EUR lower and is 0.6863 now, down from about 0.6970 this time on Friday. Cable has plunged to 1.1691, and the JPY has pushed up above 138. There were some small gains from the KRW and MYR on Friday, but on the whole, the rest of the Asia pack was softer against the USD and the CNY still seems as if it is headed higher over the short-term despite some defensive-looking fixings last week.

- **G-7 Macro:** A quick backcast to last Friday, when the US released personal income and spending figures for July, both of which came in weaker than market expectations. However, the price measures of PCE inflation and core PCE were also weaker. Both came in 0.1pp below expectations. That resulted in a 0.2pp decline in core PCE inflation taking it to 4.6%YoY. Headline PCE inflation fell to 6.3% from 6.8% in June. There's nothing of note on today's G-7 calendar.
- **Australia:** July retail sales are expected to post a slight increase on the 0.2%MoM reading for June. An online retail sales survey for July released at the end of last week showed sales declining, though at the same pace as June, so we could be looking at a similar figure for overall sales growth in July

## What to look out for: Regional manufacturing and US non-farm payrolls

- Australia retail sales (29 August)
- Malaysia CPI inflation (29 August)
- Japan labour data (30 August)
- Australia building approvals (30 August)
- US Conference board consumer confidence (30 August)
- South Korea industrial production (31 August)
- Japan industrial production (31 August)
- China manufacturing and non-manufacturing PMI (31 August)
- Hong Kong retail sales (31 August)
- South Korea GDP and trade (1 September)
- Regional PMI manufacturing (1 September)
- China Caixin PMI manufacturing (1 September)
- Indonesia CPI inflation (1 September)
- US initial jobless claims and ISM manufacturing (1 September)
- South Korea CPI inflation (2 September)
- US non-farm payrolls and factory orders (2 September)

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