Asia Morning Bites

Mixed monthly activity data from Japan. Australian private capital expenditure for 4Q23 adds upside risk to next week's GDP release. China releases its 2023 statistical communique, and India publishes 4Q23 GDP later today

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Global Macro and Markets

- **Global markets:** US Treasury yields nosed down again yesterday following a quiet day on Tuesday. The 2Y yield moved 5.6bp lower while the yield on the 10Y fell 3.9bp to 4.264%. The 10Y Treasury has been fairly steady in about a 10bp range for around 2 weeks now. A definitive change in the run of US data could see it break out. Today's most likely catalyst for change is the January PCE deflator data. EURUSD headed down through 1.08 yesterday but couldn't hold onto the fall and has moved back up to 1.0839 currently, only a little lower than this time yesterday. The AUD took a blow from the softer-than-expected CPI data yesterday and is down at 0.6496. Cable followed the EURUSD pattern, ending the day only slightly lower after an abortive attempt to break out on the downside. The JPY has weakened slightly back to 150.60. The THB continues its volatility, and after gains on Tuesday, weakened again yesterday, rising back above 36.0. Other SE Asian currencies also lost some ground yesterday. US stocks had a weaker day yesterday. The S&P 500 fell 0.17% and the NASDAQ fell 0.55%. Chinese stocks gave up the previous day's gains and the Hang Seng dropped 1.51% while the CSI 300 fell 1.27%.

- **G-7 macro:** The broad range of European sentiment indicators yesterday all had one thing in common; they were all worse than expected. The only snippet of good news was that price expectations have also come down. Revised US GDP growth for 4Q23 was slightly softer than the first release, at 3.2% versus 3.3% initially. And the Core PCE index for the quarter edged up to 2.1% from 2.0%. Ahead of the US PCE data this evening, we get preliminary inflation data for February for European economies, which should show further progress in inflation reduction being made.
- **China:** China will publish its 2023 Statistical Communique today. This is an annual publication which provides a big-picture overview of the economy, as well as giving some granular annual data across various categories such as agriculture, industry and construction, logistics, trade, and investment. A breakdown of consumption expenditures and R&D developments will also be made available in this report.
- **Japan:** Monthly activity data for January was mixed. Industrial production (IP) fell more than expected, -7.5% MoM sa in January (vs 1.4% in December, -6.8% market consensus) while retail sales rose more than expected, 0.8% in January (vs -2.6% in December, 0.5% market consensus). The weak production result was expected due to a temporary production stoppage by a car manufacturer and partially due to the January earthquake. However, the production details suggest that the decline was more widespread – motor vehicles, general-purpose and business-oriented machinery, electrical machinery, and non-durable consumer goods were all soft. However, business surveys expect production to pick up in February and March, which is in line with our expectations. Weak IP in January is likely to weigh on GDP in the first quarter.
- In contrast, retail sales rebounded in January which is a good sign, since sluggish private consumption was the main reason for the previous two quarters' contraction. However, the rebound only partially offset the previous month's 2.6% decline and the three-month comparison remains in contraction territory.
- In our view, weak growth (particularly domestic demand) will be the main drag on the BoJ's rate decision, while inflation and wage growth are expected to be strong enough to justify a rate hike. We will therefore be watching consumption and production data closely in the coming months.
- **Australia:** Private capex for Australia in 4Q23 rose 0.8%, more than the 0.4% expected, though there were downward revisions to the previous quarter. We have pencilled in 0.2%QoQ GDP growth for the fourth quarter, and this data suggests that it may well come in stronger than that. We will hang on to that forecast for now, ahead of the contribution to GDP from net exports data which is also released ahead of the GDP numbers. But we'd have to say that the risks to our forecasts are now skewed to the upside.
- **India:** 4Q23 GDP data for India will be released later tonight. The consensus shows the rate of year-on-year growth slowing to 6.6% from 7.6% previously. This downturn is based on the drop in manufacturing PMI indices in the quarter amongst other things. We are looking for a somewhat stronger figure than this, with India Nowcasts suggesting something closer to 6.9% YoY.
- **Taiwan:** January industrial production will be released today. We expect YoY growth to return to positive levels for the first time since May 2022, but we expect this rebound to largely be driven by seasonality. The January unemployment data will also be published. It is expected to be stable at 3.4%. The second estimate for the 4Q23 GDP will also be released.

What to look out for: India GDP, Australia retail sales and US core PCE

- Japan retail sales and industrial production (29 February)
- Australia retail sales (29 February)
- Thailand trade (29 February)
- Taiwan GDP (29 February)
- India GDP (29 February)
- US initial jobless claims and PCE (29 February)
- Japan labour data (1 March)
- South Korea trade (1 March)
- Regional PMI (1 March)
- China PMI non-manufacturing and manufacturing, Caixin PMI (1 March)
- Indonesia CPI inflation (1 March)
- US ISM and University of Michigan sentiment (1 March)

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