

Asia Morning Bites

Australian inflation undershoots market expectations. Korean business sentiment improves. China unleashes new measure to support property and Asian FX still gaining



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Global macro and markets:

- **Global markets:** Some remarks from Fed Governor Christopher Waller about the possibility of rate cuts once the Fed reaches its 2% inflation target were seized on by bond bulls yesterday and drove a sharp rally at the front end of the yield curve. 2Y Treasury yields fell 11.6bp to 4.734% and the yield on 10Y bonds fell 6.6bp to 4.321%. Markets are now pricing in about 100bp of easing in 2024 – not as much as our 150bp house call, but the gap is closing. The drop in US yields was enough to power EURUSD above 1.10. It now sits at 1.1004. The AUD is already up at 0.6657 (see also below) and Cable is 1.2711, while the JPY has descended to 147.06. Asian FX made broad-based gains against the USD, and will likely do so again today. The KRW led the rest of the Asian pack yesterday, rallying to 1293.80, its first foray below 1300 since August. USDCNY is down to 7.1363. The INR remains locked in its tight range around 83.3. It is looking like a peg with slight upward drift. Not clear how long this lasts. US stocks had another day without much to show for it. The S&P opened down but then climbed rapidly before giving up all its gains, falling again and then recovering to finish barely higher from the previous day's close. Equity futures point to a very small increase at today's open.

- **G-7 macro:** Preliminary Germany CPI data for November should show further declines with the Harmonized Index inflation rate dropping back to around 2.5% from 3% in October. The US releases trade balance figures for October and also revised 3Q23 GDP. This revision may also include the updated GDP-based profits figures, which we find a useful guide to stock cycles.
- **Australia:** October CPI inflation was much weaker (4.9%) than the market consensus for a fall from 5.6% to 5.2% (ING f 5.0%). The AUD is immediately a bit softer on the news. The next two months should see further rapid declines at least in headline inflation, assuming the energy and food-price-driven spikes of last year are not repeated.
- **China:** Bloomberg is reporting what it describes as a Chinese-style QE programme aimed at supporting property developers. The Pledged Supplemental Lending Plan would take the developers' loans as collateral and then give policy banks cheap cash for them to lend to the beleaguered property sector. The amounts being mentioned are CNY1tr. The recent flurry of action to provide support to this sector suggests that Beijing is becoming concerned that the rate of decline in this sector is accelerating and needs a brake to keep it from becoming disorderly. This and the other numerous measures rolled out recently should help to slow the deterioration, though may not reverse it.
- **South Korea:** As expected, local business surveys showed that companies' sentiment improved, in contrast to the softening of consumer sentiment released yesterday. The BoK's business survey showed a modest improvement in the outlook (manufacturing 72 in Nov vs 71 in Oct (seasonally adjusted series), non-manufacturing 71 in Nov vs 69 in Oct), while another survey, conducted by the Federation of Korean Industries, also gained considerably (All industry 95.2 in Nov vs 91.2 in Oct). We think the turnaround of semiconductors and the recovery of exports are probably the main reasons for the optimism. Recent survey results support our view of a gradual improvement in manufacturing and exports, on the back of the semiconductor recovery, but some weakening of private consumption in the near term.

What a look out for: Australia CPI, US personal consumption, profits and regional PMI later in the week

- Australia CPI inflation (29 November)
- BoT policy meeting (29 November)
- US GDP, personal consumption, wholesale inventories (29 November)
- US Fed Beige book (30 November)
- South Korea industrial production and BoK meeting (30 November)
- Japan retail sales and industrial production (30 November)
- China PMI manufacturing and non-manufacturing (30 November)

- US initial jobless claims and personal spending (30 November)
- US pending home sales (30 November)
- Japan jobless rate and job-applicant ratio (1 December)
- South Korea trade balance (1 December)
- Regional PMI (1 December)
- China Caixin PMI (1 December)
- Indonesia CPI inflation (1 December)
- US ISM manufacturing (1 December)

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