Asia Morning Bites

Hotter-than-expected Tokyo inflation supports further Bank of Japan rate normalisation, but further production weakness in Korea shows that the Bank of Korea has more policy easing to do

Global Macro and Markets

- **Global Markets:** With the US closed for Thanksgiving yesterday, and many market participants likely extending the holiday to the weekend, there isn't too much action in financial markets to talk about. No US Treasury prices obviously. But bond yields were down in Europe. 10Y German bund yields dropped 3.4bp to 2.124%, and French 10Y yields fell 7.3bp, taking the yield down to 2.943%. and just below equivalent yields on Greek bonds, after they had hit headlines earlier in the week by exceeding them. EURUSD was pretty flat all day yesterday and is currently sitting at 1.0560. There wasn't too much going on in the G-10 FX space, though the JPY drifted up to near the 152 level before recovering and will be supported this morning by the hotter-than-forecast Tokyo CPI data (see more below). Other Asian FX was also fairly quiet, though the THB and IDR made small gains in the region of 0.4%. US equities were also off for the day, but European bourses managed to eke out some small gains and the Eurostoxx 50 was up about 0.5%

- **G7 Macro:** This was obviously a quiet day with no US data to focus on. Germany's preliminary harmonised CPI inflation for November was unchanged from October at 2.4%YoY. Still, other German national measures increased, and make it less likely that the

ECB will deliver 50bp rate cuts in December. There is further Euro area inflation data out today, which will potentially shape this story further.

There were also some marginally less horrible confidence figures out for the Euro area – though these remain fairly dire.

For the rest of the G-7, Canadian 3Q24 GDP may be the main release to watch out for. The market consensus is for an annualised growth rate of just 1.1% QoQ, down from 2.1% in 2Q24.

- **Japan:** Tokyo CPI should be the highlight of the day and the most watched data of today's data dump. Tokyo consumer price inflation jumped more than expected to 2.6% YoY in November (vs 1.8% in October, 2.2% market consensus) mainly due to a surge in fresh food prices (10.6%). Utilities also rose 6.5% as the temporary summer subsidy program ended. Core inflation (excluding fresh food) also rose more modestly to 2.2% YoY from 1.8% in October, though it was still higher than the market consensus of 2.0%. Core-core inflation (excluding fresh food and energy) also edged up to 1.9% (vs 1.8% in October) in line with the market consensus. On a monthly basis, inflation rose by 0.5% MoM, with goods and services up by 0.8% and 0.2% respectively.

- Looking ahead, energy bills will create monthly volatility in inflation. The summer subsidy program ended in October, but new PM Ishiba has decided to reintroduce another support measure from January. Consequently, we will continue to focus on the two core indices more closely than the headline numbers.

  Japan's industrial production rose 3.0% MoM sa in October, accelerating from the 1.6% rise in September. However, it didn't meet the market consensus of a 4.0% rise. Technical paybacks from earlier car production disruptions and the waning impact of weather-related effects appear to have boosted overall production. This means that GDP recovery is likely to continue in the 4th quarter. However, the outlook survey suggested that output declined in November and December, so the coming months' data will be important to watch.

  Retail sales rebounded 0.1% (vs -2.2% in September). Most items experienced a decline in sales, but this was more than offset by a large gain in motor vehicle sales. These rose 11.8%. We believe that this is related to the earlier production disruption and do not expect this gain will be sustained in the coming months.

  In a separate report, labour market conditions were shown to be relatively healthy. The jobless rate edged up to 2.5% in October (vs 2.4% in September, 2.5% market consensus) but the job-to-application ratio also ticked up to 1.25, recording a second monthly rise.

  We note that the acceleration in inflation, combined with the solid recovery in monthly activity, increases the odds of another BoJ rate hike in December.

- **South Korea:** Production, sales, and investment declined in October. Weak monthly activity data in October signals that the expected 4Q24 GDP rebound may be weaker than previously expected. All industry production (IP) fell -0.3% - falling for a second month. Manufacturing & mining output stayed flat; a bit better than the previous month but missed the market consensus. Semiconductor output rose 8.4% while car output declined 6.3%. For services, output rose 0.3% on the back of a strong gain in financial services (3.1%). However, more the important gauge for consumption, whole/retail sales declined -1.4%.

For consumption, retail sales declined 0.4% in October with durable goods (-5.8%) sales down. For investment, both equipment investment (-5.8%) and construction (-4%) declined.

A weak start to the quarter tends to weigh more heavily on quarterly results. Consequently, today's weaker-than-expected IP suggests a cloudy outlook for 4Q24 GDP. We will get to see the 4Q24 GDP outcome next January. This is likely to prompt another rate cut by the BoK in February.

- **India:** India's GDP growth for the third quarter will likely decelerate slightly to 6.6% YoY from 6.7% in the previous quarter, largely driven by weather disruptions impacting agriculture output.

What to look out for: India 3Q GDP, Japan Tokyo CPI, jobless rate, Taiwan 3Q GDP

November 29th

India: 3Q GDP, October fiscal deficit

Japan: October jobless rate, retail sales, industrial production, November Tokyo CPI, consumer confidence index

Taiwan: 3Q GDP

China: November composite and manufacturing PMI (November 30th)

S Korea: November imports, exports, trade balance (December 1st)

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