

## Asia Morning Bites

With central bank decisions out of the way, it's all about the US jobs report out tonight.



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### Macro outlook

- **Global Markets:** Thursday marked another very solid day for US equities. The NASDAQ, which had risen by 2% on Wednesday, piled on another 3.25% on Thursday as further thoughts of a Fed pause/pivot gained ground. The S&P500 rose 1.47%. Chinese stocks didn't fare so well, with the Hang Seng Index and CSI 300 both dropping. Most of the action in bond markets yesterday was outside the US Treasury market, which didn't move much. But European bond markets saw steep falls in yields as both the ECB and Bank of England hiked policy rates by 50bp. 10Y Bund yields dropped 21.3bp, while Gilt yields fell a staggering 30bp. There were similar-sized falls in Italian and Greek bond yields. Markets seem to be taking the view that policy rate hikes are nearing an endpoint across the whole of the G-10. All of this has undone some of the EUR's recent sparkle, and it has dropped back below 1.10 to 1.0923 as of writing, taking the G-10 currencies, AUD and GBP with it. The JPY seems to have weathered this latest retreat better than the other G-10 currencies and is at 128.71. There were gains for most of the Asian currencies yesterday, led by the PHP, KRW and TWD. The INR and THB missed out on the appreciation, losing a little ground to the USD. Today, we will probably see Asian FX dropping back after the G-10 moves overnight.
- **G-7 Macro:** Here are some links to our economists' thoughts on the [European Central bank](#)

[meeting](#) and the [Bank of England Meeting](#).

The short story on both seems to be that the ECB is trying to get us to believe that they will hike a further 50bp in March with possible hikes beyond that, but in reality, seem to be wondering if the data will compel them to do that. A bewildering mixture of pre-commitment and data dependency which leaves many analysts scratching their heads. The Bank of England is a lot clearer, with hints that they may now be done.

Today, we have the January non-farm payrolls release in the US, and after the weak ADP survey earlier this week, there must be some speculation that we see a surprise undershoot of the consensus 190,000 job gain view. Anything is possible with payrolls, and over a longer time frame, we would not discount the explanatory power of the ADP survey. But as a month-on-month predictor, we'd rather flip a coin, to be honest. Hourly earnings (currently 4.6%YoY) and the unemployment rate (3.5% right now) will be as interesting as the payrolls figure itself, given the Fed's recent preoccupation with the labour market. But then markets do not seem to be paying much attention to what the Fed is interested in right now, and probably rightly so. The service sector ISM that is also released later today will be of mainly academic interest following the payrolls number.

- **China:** According to the Financial Times, US Secretary of State, Antony Blinken, will meet China's Xi Jinping on 5 and 6 Feb. Before that, China is trying to convince Japan and the Netherlands to relax their ban on exports of semiconductor equipment. We do not expect these talks to succeed, so U.S.-China relations may continue to deteriorate. This is a new risk in the supply chain for some industries, as China could respond by halting exports of solar panel technology. There could be more tit-for-tat retaliation between the US and China for the remainder of 2023. This is not good news for global macro. While the impact may not be apparent at this early stage, repeated retaliation could weigh on long-term global growth.

The Caixin Services PMI should rise above 50 in January, but this is no longer "news" and therefore should not substantially impact the market.

- **Singapore:** December retail sales will be reported today. Market consensus points to a 5.2%YoY increase, a moderation from the 6.2%YoY gain in the previous month. We've noted a gradual slowdown in retail sales which was reflected in a similar downturn in general economic activity. Higher prices appear to be taking their toll on spending although department store sales have held up well, possibly supported by tourist arrivals. Expect more of the same in early 2023 as high prices and the implementation of the goods and services tax increase kicked in this January.

## What to look out for: US jobs report

- Japan Jibun PMI services (3 February)
- China Caixin PMI services (3 February)
- Singapore retail sales (3 February)

- US non-farm payrolls and ISM services (3 February)

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