Asia Morning Bites

A busy start to the New Year

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Macro outlook

- **Global Markets**: Happy New year to you all.

  And after a short break, it's always interesting to see what has, and what has not changed. Global stock markets have gone roughly sideways since we last wrote – not too surprising given low holiday volumes. And currencies aren't too different either. EURUSD is still in the 1.06-1.07 area (1.0661 currently), and the JPY is at the lower end of 130-135 (131.22). The AUD is sitting bang on 68 cents, having risen since mid-December, while the GBP has slid back to 1.2058, down from its mid-December highs which were closer to 1.25. In the Asian FX space, if we consider the period since our last note on 22 December, as well as the AUD, the CNY has made back some ground against the dollar, recovering to 6.8986 (no doubt buoyed by re-opening hopes), and the SGD is also higher at 1.3418. In contrast, the PHP is down more than a per cent over the same time frame to 55.71. There have been more interesting developments in bond markets, however. As we went on leave, we felt that the market would close the gap between what was being implied for peak Fed funds rates in mid-2023, and the 5.0% level we felt was appropriate. That gap has now been closed, and some of the implied easing in 2023 has been taken out as well. These changes have moved both 2Y and 10Y Treasury yields higher, which now stand respectively at 4.42% and 3.875%.

From here on, it gets harder to call. A higher 5.25% implied peak Fed funds is still a possibility, though would require the inflation decline to sputter, and we don't think it will. And if the Fed simply tries to talk rate expectations higher, then unless this supported by the data, it will probably fail. So we may potter around at current levels for a bit – depending on what Friday's payrolls deliver. On which note, while markets may give prominence to this data, and the Fed is trying to talk up its importance for the inflation outlook, let me say just one thing: Wage growth didn't cause the inflation the US is seeing now, and it will not be the reason that it ultimately falls. So overly fixating on labour data is unlikely to yield dividends as far as forecasting inflation and Fed rates go.

- **Global Macro**: Over the period since our last note, the major news release was the US November PCE deflator data. PCE inflation is now running at only 5.5%YoY, down from 6.0% in October, and the core rate of PCE inflation also fell to 4.7%YoY from 5.0%, though a little less than had been expected (which may be why bonds sold off). As already mentioned, this week, the main data release to watch will be US non-farm payrolls. The market consensus is sticking with a +200,000 employment gain, and no change to the unemployment rate of 3.7%. Of course, anything is possible. Eurozone CPI inflation data for December is released this week, and we also have FOMC minutes from the December meeting to help stir things up.

- **China**: The CAIXIN manufacturing PMI should fall to around 47 from 49 a month ago after the official manufacturing PMI recorded a drop to 47.0 from 48.0 for the same month. Many workers were sick with Covid during December. That said, December is a month that usually records a lower manufacturing PMI compared to November as the export season ends in November, so the lower PMI number is not so significant in terms of the export outlook.

- **Singapore**: 4Q GDP settled at 2.2%YoY, slightly higher than expectations. Market consensus pointed to a 2.1%YoY increase with economic activity up 0.2% from the previous quarter. Growth momentum has been showing signs of slowing especially in the latest trade numbers and we can expect this trend to continue in early 2023 as global trade is expected to face challenges this year.

What to look out for: Regional PMI

- Singapore GDP (3 January)

- Regional PMI reports (3 January)

- Japan Jibun PMI (4 January)

- Hong Kong retail sales (4 January)

- US ISM manufacturing (4 January)

- FOMC minutes (5 January)
- Philippines CPI inflation (5 January)
- Thailand CPI inflation (5 January)
- China PMI services (5 January)
- Singapore retail sales (5 January)
- US ADP, trade balance and initial jobless claims (5 January)
- Taiwan CPI inflation (6 January)
- US non-farm payrolls, ISM services, durable goods and factory orders (6 January)

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