

Asia Morning Bites

Fed rates - higher, slower. Pivot optimism quickly sours.



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Macro outlook

- **Global Markets:** US equity investors didn't much like the message from Fed Chair Powell last night. Equities did spike higher on the announcement of a 75bp increase in rates (relief it wasn't 100bp?), but it was downhill soon after and then for the rest of the session which closed with the S&P down by 2.5% and the NASDAQ down 3.36%. Equity futures are also looking soggy right now, so further losses will likely follow today. The initial boost was provided by a hint that the pace of tightening could soon moderate. But the key disappointment seems to have been the remark that rates would have to go higher than expected. Expected by whom? The market? If that is the case, then this sounds like Powell is telling us that 5% will not be the peak, and Fed funds futures implied rates have pushed up to about 5.1% from the May 23 contract onwards. If it is simply higher than the Fed previously expected, then a 5% peak remains the plausible outcome. For more on this, please read [the linked note](#) from our US Economist, and rates and FX strategists. US Treasury yields responded to the FOMC decision and press conference with a mirror image of the equities move. The initial response was a sharp fall in yields in the 2Y Treasury, which then swung back strongly to end up by 7.5bp at 4.626%. Yields on 10y Treasuries followed the same pattern, rising by 5.9bp to sit at 4.10% now. It was much the same in currency space. The EURUSD exchange rate spiked up initially to 0.998, before retreating to 0.9813. The AUD, GBP and JPY all lost ground to the USD. Other Asian currencies have yet to take on

board the latest moves fully, and yesterday was relatively quiet, except for some PHP weakness (see also below) and a little bit of THB strength. Anyway, some Asian FX weakness looks probable today.

- **G-7 Macro:** Lost amidst the FOMC noise yesterday, the ADP employment survey for the US showed a 239,000 increase in employment in October. That is more than the 192,000 revised reading for September, and for “pivot” proponents, is going in the wrong direction (if that is also the direction of tomorrow’s non-farm payrolls). The consensus median for payrolls is only 200,000, which even then is still a fairly decent pace of employment growth and not conducive to a lower peak Fed funds rate. Today the US is fairly quiet, with the main interest being the service sector ISM index. But we do have a Bank of England meeting, and they are widely expected to raise rates a further 75bp taking Bank Rate to 3.0%.
- **China:** It is uncertain whether Caixin Services PMI will come in below 50, like the official non-manufacturing PMI. The Caixin service sector PMI’s survey participants are mainly small service providers, which are very different from those responding to the official non-manufacturing PMI, which includes more property-related participants. But even if it is above 50, it may not have much impact on CNY and CNH, as today’s driving force for fx should mainly come from the dollar after yesterday’s FOMC meeting.
- **Australia:** Australia’s trade surplus for September widened substantially on a big surge in exports, which gained 7%MoM, while imports made no headway over the month. The bigger-than-expected export figure coupled with weaker imports took the surplus out to AUD12.4bn. This is still lower than the June reading of AUD17.6bn, but may well put a floor under the AUD after the impact of last night’s FOMC decision.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) Governor Medalla pre-announced his policy move today. Medalla said he would raise the policy rate by 75bp at the scheduled meeting on 17 November. BSP previously telegraphed that it would match any move by the Fed. BSP’s commitment to hike rates at their next meeting should steady the PHP at the open today.

What to look out for: US non-farm payrolls

- Australia trade (3 November)
- China Caixin PMI services (3 November)
- Malaysia BNM policy meeting (3 November)
- BoE policy meeting (3 November)
- US trade balance, durable goods orders and initial jobless claims (3 November)
- Japan Jibun PMI (4 November)
- Philippine trade and inflation (4 November)

- Thailand CPI inflation (4 November)
- Singapore retail sales (4 November)
- US non-farm payrolls (4 November)

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