

Asia Morning Bites

The RBA is expected to hold rates unchanged today, but we still think there is a final hike in the pipeline later this quarter. Markets buy further into the higher-for-longer narrative, helped along by Fed speakers. Asian FX slides



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Global markets and macro

- **Global markets:** 10Y US Treasury yields are up again. At one stage yesterday they pushed above 4.70%, though they have retreated back to 4.679% now. That is still up more than 10bp. 2Y yields rose 6.1bp to 5.104%. Some Fed speakers seem to be softening their tone on Fed funds. After Williams' comments yesterday, Michael Barr echoed the remarks that Fed funds were "likely at or very near" sufficiently restrictive. But he also added that rates would have to remain high for some time. The comments were not all dovish though. Loretta Mester suggested that one more hike may be needed this year, and left open the possibility that more would be needed. Michelle Bowman made similar points. The newswires aren't saying much about the event Powell was slated to speak at yesterday. There are more Fed speakers today (Barr, Williams, Mester, Bostic). US equities didn't much like the additional surge in bond yields, and were down for most of the session, but rallied late in the day. The S&P 500 ended virtually unchanged, while the NASDAQ gained 0.67%. That may not last. Equity futures are currently showing gains at the open, but only just. EURUSD followed bond yields and dropped to 1.0476. This also dragged other G-10 currencies along for the ride.

The AUD dropped to 0.6359, and Cable fell to 1.2086. The JPY is hovering just below 150 at 149.86. Asian FX is looking soft against the USD. The THB has once again underperformed the rest of the region, dropping 1.4% to 36.938. The SGD is also suffering and has weakened to 1.3737.

- **G-7 macro:** US bond yields and the USD will have been heartened by the [September manufacturing ISM figures](#). These showed an increase in the headline index to 49.0, up from 47.6, and gains in the new orders index too. Both remain in contraction territory but are moderating. The employment index rose from 48.5 to 51.2, signalling gains. Remember, it is non-farm payrolls on Friday. Today is light for US data, though the JOLTS job openings survey for August may get a look. Bear in mind that this JOLTS data is for August, so all it really does is shed more light on numbers that we already know. Still, it seems to have risen up the ranks of data that are pored over by the pundits, so we can no longer ignore it. US vehicle sales for September may also be worth considering, though these sales have a complicated relationship with data as measured by, for example, the retail sales numbers, so need to be treated carefully.
- **Australia:** The RBA meets today to consider what to do with monetary policy. There is one brave outlier looking for a 25bp hike. It is not us. At least, not at this meeting. We are with the consensus for a no-change outcome today. But we still think there is one more hike in the pipeline, either for next month's meeting or the December meeting. There is an argument for a hike today, though it is mainly about building a reputation with markets by the new Governor, Michelle Bullock. If it were down to us, we would wait for another month of rising inflation and the 3Q23 inflation numbers. The market is not looking for any further tightening until next year. In our view, if we don't get any tightening by December, then that really does mean that 4.1% marked the cash rate peak for this cycle.

What to look out for: RBA meeting

- RBA meeting (3 October)
- US JOLTS (3 October)
- South Korea industrial production (4 October)
- Japan Jibun services PMI (4 October)
- New Zealand RBNZ policy (4 October)
- US ADP employment, factory orders and ISM services (4 October)
- South Korea CPI inflation (5 October)
- Philippines CPI inflation (5 October)
- Australia trade (5 October)
- Singapore retail sales (5 October)
- Taiwan CPI inflation (5 October)
- US trade and initial jobless claims (5 October)
- Philippines unemployment (6 October)
- India RBI policy (6 October)
- US non-farm payrolls (6 October)

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