

Asia Morning Bites

Asian FX to make back some lost ground today closing the gap with G-10 peers



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Macro outlook

- **Global markets:** After their Friday sell-off, US stocks continued their decline on Monday, though the pace was more moderate. After opening lower, the S&P traded mainly sideways, finishing 0.67% lower than the Friday close. The NASDAQ fell 1.02%. 2Y US Treasury yields continued their march higher, rising 2.7bp to reach 3.423%, while the yield on the 10Y US Treasury rose by 6.2bp to 3.10%, reducing the inversion slightly. The average of the normally reliable Dec 23 and Dec 24 implied rates from Fed funds futures is closer to 3.4%, which suggests some possible upside to the current 10Y yield. European bond yields picked up much more sharply as Jackson Hole comments were taken on board, though ECB Chief Economist, Philip Lane, has argued about the merits of more measured increases. EURUSD has actually managed to claw its way back above parity, currently residing at 1.0002. Other G-10 currencies have also recovered against the USD. The AUD is back to 0.6899, Cable has recovered to 1.1709, though the JPY remains soft at 138.7. Asian FX remains weak, with the KRW at 1350 and THB pushing up to 36.35. The TWD gapped higher and then weakened further to 30.407. Today we may see Asian FX take a cue from their G-10 counterparts and claw back some ground against the USD.
- **G-7 Macro:** There was nothing of note on the macro calendar yesterday. Preliminary

August Eurozone CPI inflation data are probably the main pick of the day, with the consensus expecting a further increase to 8.8% YoY for the Harmonized index inflation rate, a rise of 0.3pp. US house price data is also out, but only a June figure, so very laggy, though it could well point to a clearer peak in house price growth.

- **Australia:** July building approvals are released this morning, and the consensus expects a further decline from last month (-3.0% MoM expected). This is an incredibly volatile series, with more noise than signal. But the recent moving average tends to suggest a trend decline rate of about 0.7%MoM.
- **Japan:** Labour reports for July were positive overall. The jobless rate remained unchanged at 2.6% for the third month and the jobs-to-application ratio rose to 1.29 (vs 1.27 in June and the market consensus). Job offers continued to increase for a fifth month, but applicants declined sharply, probably due to a recent spike in Covid cases. The reopening still appears to be boosting economic activity, but the resurgence of Covid cases is also limiting labour-market re-entry. It is early days, but there is now growing hope that the labour shortage could raise wages in line with Bank of Japan hopes.

What to look out for: Regional manufacturing and US NFP report

- Japan labour data (30 August)
- Australia building approvals (30 August)
- US Conference board consumer confidence (30 August)
- South Korea industrial production (31 August)
- Japan industrial production (31 August)
- China manufacturing and non-manufacturing PMI (31 August)
- Hong Kong retail sales (31 August)
- South Korea GDP and trade (1 September)
- Regional PMI manufacturing (1 September)
- China Caixin PMI manufacturing (1 September)
- Indonesia CPI inflation (1 September)
- US initial jobless claims and ISM manufacturing (1 September)

- South Korea CPI inflation (2 September)
- US non-farm payrolls and factory orders (2 September)

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