

Asia Morning Bites

China stocks bouyed by more thoughtful approach to zero Covid; production data from Korea and Japan disappoint; Australian inflation data surprises on the downside; Powell tonight!



Asia Morning Bites

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Macro Outlook

- **Global markets:** Chinese stocks made strong gains yesterday as a scheduled announcement on the recent Zero-Covid measures promised a less draconian approach in the future. Among the various measures noted, one was more pressure on the elderly to get vaccinated, which could be one route out of Zero-Covid, though there is a long way to go yet before this happens. The Hang Seng Index gained 5.24%, and the CSI 300 rose 3.09%. Daily symptomatic case numbers are currently hovering at a little under 4,000, where they have been since recording 4,010 on 23 November. US stocks were less upbeat. Both the NASDAQ and S&P500 made small losses on the day, perhaps taking defensive positions ahead of today's speech by Fed chair, Jerome Powell, which we expect will be one of the more hawkish speeches to date. US equity futures also look slightly jittery. US Treasury yields are edging higher too. The 2Y Treasury yield is up 3.5bp over the last 24 hours and there was a bigger 6.3bp rise from the 10Y bond which now yields 3.744%. European bond yields fell yesterday by about 6bp on average, probably helped by some lower inflation numbers. The EURUSD exchange rate pulled back a little further to 1.0323 on the combination of slightly higher risk aversion and yield differential swings. The AUD is actually

slightly stronger than this time yesterday at 0.6674, but recent direction has been weaker after a big upswing. Cable performed much the same bi-directional move and is little changed in net terms at 1.1944 from a day ago, and the same goes for USDJPY which is currently trading at 138.75. Asian currencies had a mixed performance in the last 24 hours. The CNH and CNY have both strengthened following the reassurances given on Zero-Covid policies, and that probably helped drag along the THB and TWD for smaller gains. The MYR held up the bottom of the table, variously blamed by newswires on profit taking and lower crude oil prices.

- **G-7 Macro:** Germany's inflation rate for November, fell to 10.0% from 10.4% in October (11.3% from 11.6% on a harmonised basis). Though [as the linked note here suggests](#), inflation may not yet have peaked in Germany, so the drop in yields may prove short-lived. Eurozone November inflation data is released later today and the harmonised inflation rate is due to decline to 11.3% YoY from 11.8%. In the US, the ADP survey provides the first and least unreliable indicator for Friday's payrolls release. JOLTS job openings and layoffs data adds some nuance to last month's employment numbers, but don't actually tell us much new, and are unlikely to be market moving. The same goes for the second release of US 3Q22 GDP data.
- Industrial Production in October from South Korea and Japan were weaker than expected, reflecting signs of a global demand slowdown.

Korea: Industrial production (IP) plunged -3.5% MoM sa in October, lower than the market expectation of -1.0% (vs a revised -1.9% in September). All industry IP dropped -1.5% MoM sa in October, falling for the fourth consecutive month, and the contraction even intensified in October. Meanwhile, retail sales (-0.2%) and facility investment (0.0%) outcomes were also sluggish as interest rate hikes and the gloomy outlook for the overall economy weighed on activity. Today's weak outcomes support our view that GDP in the current quarter will contract, and that the ongoing trucker strike will put more strain on economic activity, at least in the current quarter. In addition, as the effect of the rate hikes to date have begun to have a more full-fledged impact on economic activity along with weak external demand conditions, the Bank of Korea probably only has limited room for further rate hikes.

Japan: Industrial production fell -2.6% MoM sa in October (vs -1.7% in September, market consensus: -1.8%), recording a second monthly drop. After the economy contracted in the third quarter, this weak start to the current quarter signals a cloudy outlook.

- **Australia:** Monthly October CPI data for Australia surprised with a much lower rate of inflation than the market had been expecting (Consensus 7.6%, ING f 7.8%). Headline inflation in October dropped back from 7.3% in September to only 6.9%YoY. The core trimmed mean inflation rate also edged slightly lower to 5.3% YoY from 5.4%, and against expectations for further increases. Lower-than-expected food prices were responsible for about 0.1pp of the decline. But the bigger share was attributable to a drop in the prices for holiday travel and accommodation. We don't believe these lower inflation figures have any substantial ramifications for Reserve Bank (RBA) policy, which we believe will continue to increase at a 25bp per meeting pace into next year. But it does make us more comfortable with our 3.6% cash rate peak call.

- **India:** 3Q22 GDP data for India is out later today. We don't disagree with the consensus 6.2%YoY figure, which is a sharp drop back from the 13.5%YoY base-effect driven 2Q number, with the latest number being a much better reflection of underlying economic growth. We still look for India to grow by about 6.3%YoY for the full calendar year 2022, but may have to adjust this view in the light of any surprises from today's data.

What to look out for: Fed Speakers and US jobs report

- US Conference board consumer confidence (29 November)
- South Korea industrial production (29 November)
- Japan industrial production (29 November)
- Fed's Williams and Bullard speak (29 November)
- China PMI manufacturing and non-manufacturing (30 November)
- Bank of Thailand policy meeting and trade (30 November)
- India GDP (30 November)
- US ADP employment and pending home sales (30 November)
- Fed's Bowman speaks (30 November)
- South Korea 3Q GDP and trade (1 December)
- Regional PMI (1 December)
- China Caixin PMI (1 December)
- Indonesia CPI inflation (1 December)
- US personal spending, initial jobless claims and ISM manufacturing (1 December)
- Fed's Cook, Bowman, Logan, Barr and Powell speak (1 December)
- South Korea CPI inflation (2 December)
- Fed's Evans speaks (2 December)
- US non-farm payrolls (2 December)

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