Asia Morning Bites

Thursday's data calendar is loaded with China reporting PMI figures, India's 3Q23 GDP plus the BoK decision on policy

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Global macro and markets

- **Global markets:** Tuesday's bond market rally continued on into Wednesday. 2Y Treasury yields fell a further 8.9bp to 4.645%, while the yield on 10Y Treasuries fell 6.5bp to 4.255%. Such a big move in a relatively short time argues for a correction at some point. There is still a little further for this bond rally to run before it hits overbought territory...not much though. EURUSD hasn't taken any support from this latest bond move and has drifted back from 1.10 to 1.0973. The AUD has also lost ground, dropping to 0.6619 after yesterday's low inflation print. Cable has dropped back just below the 1.27 level it breached earlier. The JPY is looking the strongest of the G-10, and has moved erratically lower to 147.07. Most of the Asia pack gained against the USD yesterday. The VND was weaker, perhaps a response to the new higher corporate tax rates announced. Leading the charge for the rest of the region were the TWD, MYR and THB with the KRW shortly behind. USDCNY is now 7.1262 after a small gain on the day.
- **G-7 macro:** Germany delivered some very benign preliminary inflation data for November. The Harmonised CPI index fell 0.7% MoM, and took the inflation rate to just 2.3% YoY, within spitting distance of the 2% target, and surely raising thoughts about ECB Rate cuts next year if the rest of the Eurozone follows suit. No wonder EURUSD didn't move higher

yesterday. The second revision of US GDP delivered the 5.0% annualised rate of growth expected by all. Today, we have already had the US Fed's Beige book, where the newswire headlines have focused on some pullback by consumers on discretionary spending and some softening of labour markets. PCE inflation data later today will be the main focus and should follow the downward path indicated by the earlier CPI release. Core PCE inflation for October is expected to decline from 3.7% to 3.5% YoY.

- **China:** Official PMI data due out this morning will likely show a slight increase in activity from October's readings of 49.5 for manufacturing and 50.6 for non-manufacturing. This would be in line with the gradual pickup trend suggested by recent activity data releases.
- **India:** Later tonight, we get the GDP release for 3Q23. The consensus is looking for a 6.8% YoY increase, a slowdown from 7.8% in 2Q23, and reflecting the disappointing September production data. We think we may still get something above 7% and are looking for a 7.1% increase.
- **NE Asia**: Industrial production data from Northeast Asia was quite mixed. Disappointing Korean Industrial Production (IP) vs Solid Japan IP. Clearly car production remained solid, and we still believe that the global semiconductor cycle is slowly improving. Korea's semiconductor output plunged temporarily but Japan's chip-making equipment and electronic devices output gained.
- **Japan:** Industrial production rose more than expected 1.0% MoM sa in October (vs 0.5% in September, 0.8% market consensus), for a second month. Car production continued to grow in October, thanks to an easing chip shortage and healthy global demand, even as a shortage of some auto parts halted Toyota factories for more than a week in October. Thus, we believe the underlying trend should be stronger than what October figures suggested. Other than cars, electronic devices (including chip-making equipment) and general machinery gained as well, which suggests that global semiconductor demand is slowly picking up. However, retail sales unexpectedly dropped by 1.6% MoM sa in October (vs 0.4% in September, 0.4% market consensus). This month's sharp drop is a concern as the decline was across almost all subsectors. But it's the first slide in four months, so we are keeping our view on a consumption recovery unchanged for now.
- **South Korea:** It is widely expected that the Bank of Korea will keep its policy rate unchanged at today's meeting. Given today's poor outcome in monthly activity data, we believe there might be more concern about a sharp economic slowdown, but still, there shouldn't be a dissenting vote yet, because that could trigger rapid market pricing on rate cuts which the BoK will not want just yet. Currently, the BoK is more concerned about the rapid increase in household debt, which is considered a major economic risk factor. Industrial production unexpectedly dropped by 3.5% MoM sa in October (vs revised 1.7% in September, 0.4% market consensus). Semiconductors (-11.4%) and machinery (-8.3%) declined the most while electronics (10.4%) and vehicles (3.2%) gained modestly. The semiconductor plunge is probably a technical payback from the double-digit increase in the past two months. (13.5% in Aug, 12.9% in Sep) gains from the previous two months.
- Putting the latest soft and hard data together, we expect the current quarter GDP to decelerate considerably (0.1% QoQ sa vs 0.6% in 3Q23), mainly due to weak private consumption and investment. For manufacturing and exports, we still think they will improve modestly in the current quarter despite the disappointing October manufacturing output. We still believe that the October plunge in semiconductors is due to the industry taking a breath and that solid car production will continue.

What to look out for: China PMI and the BoK meeting

- South Korea industrial production and BoK meeting (30 November)
- Japan retail sales and industrial production (30 November)
- China PMI manufacturing and non-manufacturing (30 November)
- India GDP (30 November)
- US initial jobless claims and personal spending (30 November)
- US pending home sales (30 November)
- Japan jobless rate and job-applicant ratio (1 December)
- South Korea trade balance (1 December)
- Regional PMI (1 December)
- China Caixin PMI (1 December)
- Indonesia CPI inflation (1 December)
- US ISM manufacturing (1 December)

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