

# Asia Morning Bites

Equities and FX decouple as we end the quarter



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### Macro outlook

- **Global markets:** The bounce didn't last long. Both S&P500 and NASDAQ fell sharply again on Thursday, the S&P by 2.11% and the NASDAQ by 2.84%. That puts year-to-date losses at respectively 23.62% and 31.37%. And we'd be inclined to argue that we haven't yet seen the bottom. The S&P500, for example, is sitting just around its June lows, so any break below this level sets the scene for some substantial further declines. On the positive side, equity futures are pricing in small gains at today's open, but that's a long way from saying that stocks will rally into the weekend and the end of the quarter. UK Gilts gave back some of their gains yesterday on the Truss government's insistence on sticking to its mini-budget, and yields have risen across the UK curve, though this doesn't seem to have the market's eye in the same way it did earlier this week. 2Y US Treasury yields headed up 5.8bp to 4.192% and the yield on the 10Y bond rose a similar amount to 3.786%. 10Y Bunds rose 5.8bp to 2.14%, hurt by a 10% YoY September inflation print (10.9% for the harmonized index). And while this is cementing thoughts of a 0.75% rate increase at the next ECB meeting, that seems like a lame response in a month where the price index rose by 2 percentage points. For now, currency markets seem to disagree, and the EURUSD has risen to 0.982, though this seems a little incongruous against the data backdrop. Other G-10 currencies also did better against the USD. The AUD is now back up above 65 cents, while the GBP has risen to 1.1145 – a long way from the 1.035 low of the week (and approx. last 4

decades!). Can this last? It seems a long shot as there's plenty more bad news to be priced in. The JPY has also had a reprieve, and is back to 144.42, while the CNY led APAC's FX gains, gaining by more than a per cent to 7.1249 onshore.

- **G-7 Macro:** Besides the unpleasant German inflation data, the macro picture was quite thin, with some marginal upward revisions to 2Q22 US GDP, and a lower than expected initial claims figure suggesting that the Fed still has its work cut out to slow the economy enough to bring inflation down. Today, we see the full European inflation picture for September, which is likely to exceed the 9.7%YoY consensus estimate. This won't have been adjusted yet for the German figures. US Personal income and spending data will show how consumer spending held up in August together with the latest PCE inflation figures. And we round off the week with the University of Michigan consumer sentiment (and inflation expectations) figures.
- **China:** We expect the manufacturing PMI to be under 50 as manufacturing for real estate construction will still be in monthly contraction. Furthermore, export demand is waning and that could affect manufacturing activity for holiday-season exports. However, services should continue to pick up as Covid measures become more localised.
- **India:** The Reserve Bank of India (RBI) meets today to decide on rate policy and the following three factors are relevant to that decision: 1) Inflation is 7.0%, a full per cent above the top of the RBI's target range 2) it is heading in the wrong way. 3) RBI commentary has been clear about the need to focus on fighting inflation. Put that all together and it looks likely that the RBI will deliver a further 50bp of tightening today, taking the repo rate to 5.9%. Later this evening, we will also get India's fiscal deficit figures for August. Although all major rating agencies have India's long-term foreign credit rating at 'stable', and the deficit data year-to-date seem on track to meet the government's 6.4% (GDP) target, it wasn't that long ago that Fitch raised their outlook from negative. The deficit numbers have been whipped around by government subsidies and attempts to limit the pass-through of high energy prices to the consumer, so these are still worth a quick look.
- **South Korea:** Industrial production dropped more than expected in August, recording a -1.8%MoM decline (vs -1.3% in July and -0.8% market consensus). Automobile production rebounded (8.8%) but the declines in semiconductors (-14.2%) and petrochemicals (-5.0%) were bigger. We believe that re-opening will support 3QGDP, but thereafter, there should be a sharp deceleration. We also now expect only a 0.1% QoQ gain in 3Q22 (vs 0.7% in 2Q). Yesterday's business survey outcomes were also quite weak, with manufacturing sentiment rapidly deteriorating to the lowest level since October 2020. Also, today's forward-looking construction orders data were soft, suggesting more recessionary signals in the coming quarters.
- **Japan:** Japan's data releases surprised the market on the positive side. The jobless rate edged down to 2.5% (vs 2.6% in July), in line with the market consensus. The Jobs-to-applications ratio continued to rise (has risen for several months in a row). And industrial production in August not only recorded a third monthly rise (2.7% MoM sa), but also beat the market expectation significantly (0.2%). We will revise up third quarter GDP soon based on today's releases. The stronger jobs market is also a good sign for wage growth together with solid production gains. However, we think it is still too early to tell because Japan is reopening at a slower pace than other Asian countries and the reopening effects are just kicking in. With growing global recession headwinds, the BoJ will likely take its time to see whether Japan can still produce solid outcomes in a sustainable way.

## What to look out for: US core PCE, personal spending and Michigan sentiment

- South Korea industrial production (30 September)
- Japan labor market data (30 September)
- China official and Caixin PMI manufacturing (30 September)
- India RBI meeting (30 September)
- Hong Kong retail sales (30 September)
- US personal income, personal spending and core PCE (30 September)
- US University of Michigan sentiment (30 September)

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