

Asia Morning Bites

China-Taiwan tensions rise again after drone incident



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Macro outlook

- **Global markets:** It's slow, and it's measured, and volumes are normal, but US equities declined again yesterday. Both the S&P500 and NASDAQ declined by about 1.1% on Tuesday. Equity futures are mixed, but basically flat. Friday's US non-farm payrolls report may provide the next big leg up or down. US Treasury yields are also grinding very slowly higher. The yield on the 2Y US Treasury rose 1.8bp to 3.442%, while that on the 10Y bond remained flat at 3.102%. 10Y UK Gilt yields pushed up 10.2bp yesterday, catching up their European peers after the public holiday on Monday. EURUSD was fairly steady yesterday, holding above parity and edging up to 1.0022. The AUD pushed up strongly at one point to close to 0.696, but then collapsed back to 0.6857 on a Reserve Bank of Australia (RBA) report cited by Bloomberg that hinted at more moderate rate hikes ahead. Cable collapsed back below 1.17 to 1.1658 after the public holiday, while the JPY has remained fairly steady at 138.75. Asian FX was a mixed bag. The PHP and SGD joined Australia at the bottom of the pack, and the TWD was also weaker – perhaps disturbed by reports that a Chinese drone was shot at over the Kinmen islands. The INR, IDR and MYR all solid made gains yesterday, the INR rising on hopes that Government securities may be included in the JPMorgan global index.
- **G-7 Macro:** Eurozone preliminary CPI inflation for August and the US ADP employment survey are the main macro releases today. EU inflation could rise to 9.0% from 8.9%YoY.

While analysts expect the ADP survey to show a 300,000 increases in private sector employment in August.

- **China:** Official PMI data for China are due out at 0930SGT. Consensus forecasters expect the manufacturing index to remain in contraction territory at 49.2, though this would be a slight improvement from the July figure of 49.0 if so. The non-manufacturing index is expected to show a slowdown in growth with the index easing down to 52.3 from 53.8.
- **India:** Later tonight, India releases GDP data for 2Q22, where the consensus expects a base-effect dominated series could deliver a 15.3%YoY increase. This will keep India on track to achieve 7%-plus rate of growth for the calendar-year 2022. The consensus estimate is in line with our own expectations. Fiscal deficit data for July will also be released.
- **Australia:** 2Q construction work done and private sector credit growth are today's macro offerings. Both will provide some indication of the work the RBA will need to do to slow the economy enough to bring inflation down. Construction is bouncing along either side of zero quarter-on-quarter and is due a slight upward bounce in 2Q after a -0.9%QoQ result for Q1. Private sector credit growth is running at more than 9%YoY and will need to come down to be consistent with the Reserve Bank's inflation target.
- **Korea:** The July Industrial production outcome was weak with the all-industry index falling (-0.1% MoM). Manufacturing production (-1.3%), retail sales (-0.3%), equipment investment (-3.2%), and construction (-2.5%) all dropped while services (0.3%) alone rebounded. Forward-looking machinery orders and construction orders also declined, suggesting a weak investment outlook for the next quarter. Also, it was particularly noticeable that all semiconductor-related figures came out poorly. The weak start of the quarter poses downside risks to the current quarter's GDP. We don't expect growth to contract in the current quarter, but the likelihood of a negative quarter is growing. If GDP contracts this quarter, it will complicate the BoK's policy action at the year-end.
- **Japan:** In contrast to Korea, the July Industrial production (IP) performance was pretty strong. IP rose unexpectedly by 1.0% MoM sa (vs -0.5% market consensus), following a 9.2% surge in June. Retail sales also rose more than expected (0.8% in July vs -1.4% in June). Also, output forecasts for August and September improved suggesting that solid production is likely to continue this quarter. Today's reports signal that the economy continues to recover, mostly due to catch-up production gaps and reopening boosts.

What to look out for: Regional PMI and US non-farm payrolls

- 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)
- India GDP (31 August)
- Fed's Mester speaks (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)
- Fed's Bostic speaks (1 September)
- South Korea CPI inflation (2 September)
- US non-farm payrolls and factory orders (2 September)

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