Asia Morning Bites

Heavy day in terms of Asian data reports ahead of the US FOMC. Australian December CPI already out has come in below consensus. Japanese and South Korean production figures show more signs of recovery in autos and semiconductors. China's PMI data are also set for release

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Global Macro and Markets

- **Global markets:** 2Y US Treasury yields pushed higher as the market further priced out the chances of a March rate cut ahead of tonight's FOMC. There is now only 43.7% of a 25bp rate cut priced in now and 2Y yields have risen 1.6bp to 4.334%, though they were up a lot more at one stage. The 10Y yield also rose in early trading but lost all that and more to finish 4.2bp lower at 4.032%. EURUSD is back up slightly to 1.0844, though the short-run trend remains negative. The AUD has been bouncing around either side of 66 cents and is just below that as of writing. Cable has also been very choppy, but has regained almost all of yesterday's losses to sit just below 1.27 now. The JPY is also roughly unchanged from this time yesterday, at 147.53, but it has also been choppy. Asian FX had a decent day yesterday, all except the PHP, which weakened slightly. The main gainers were the THB, VND and KRW. CNY is little changed at 7.1778. US stocks struggled yesterday. The S&P 500 was flat on the day, but the NASDAQ lost 0.76%. Equity futures, which have been a bit of a misleading indicator recently, are currently showing red on the screens. Chinese stocks also dropped again yesterday – the authorities' recent measures seem not to have had much lasting impact. The Hang Seng is down 2.33%, the CSI 300 is down 1.78%.

- **G-7 macro:** The Eurozone managed to just avoid a technical recession in 4Q23, but at 0.0% growth in 4Q23, there isn't much cause for celebration. Germany did record a second consecutive quarter of contraction, but there was some better data out of Italy and Spain, and that helped lift the aggregate figure for the Euro area as a whole. US house prices continued to rise in November, according to FHFA And CoreLogic data, though the CoreLogic numbers showed some signs of slowing on a monthly basis. Still, November is a slow month for housing transactions, and with volumes already extremely depressed, these figures need to be treated with some circumspection. The US JOLTS data showed a solid increase in job openings ahead of Friday's payrolls. We get the FOMC decision in the early hours of tomorrow morning local Asia time.
- **Australia:** December and 4Q23 CPI inflation data showed an even bigger drop than had been expected. The monthly inflation rate fell to 3.4% YoY in December, from 4.3% in November. A 3.7% rate had been forecast by the consensus. While today's data will inevitably encourage thoughts of more, and perhaps sooner easing from the Reserve Bank of Australia than previously, we think this might be the low point for inflation in Australia for a while, and inflation rates may begin to tick up again in the coming quarters. So this may be a good time to consider a contrarian viewpoint to the market in terms of implied cash rates and the AUD.
- **China:** China's PMI data will be released this morning, and will be watched closely as it is China's first key economic activity data release of the year. Our forecast is for it to rebound slightly to 49.5, which implies a smaller contraction. For markets, the key point to watch is if it comes in higher or lower than last month's 49.0. Also worth watching will be the performance of sub-indicators such as new orders.
- **Taiwan/Hong Kong:** The 4Q GDP data for Taiwan and Hong Kong will be released in the afternoon. Forecasts have been revised up over the last few weeks, given decent strength in the monthly data. The consensus forecast for Taiwan has 4Q GDP at 4.15% YoY, bringing the annual growth rate to 1.3%. Hong Kong's 4Q GDP is expected at 4.7% to bring 2023 GDP to 3.4%. Finally, we have Hong Kong's December money supply data also released this afternoon. Hong Kong's money supply data is a low market impact economic indicator normally, but lately, it's been worth keeping an eye on to see if the recent bottoming-out trend can continue, as Hong Kong's M3 growth has a positive correlation with markets.
- **Japan:** December activity data was on the soft side, Industrial production (IP) and retail sales all came in below consensus. IP rose 1.8% MoM sa (vs -0.9% in November, 2.5% market consensus). Vehicles and chip-making equipment led the rebound. We believe that the global semiconductor cycle will stay on a recovery path, and will support Japan's manufacturing activity. Meanwhile, retail sales unexpectedly dropped -2.9% (vs revised 1.1% in November, 0.2% market consensus). Retail sales declined across almost all areas with the largest decline in apparel (-10.7%), motor vehicles (-5.0%), and household machines (-8.8%). Weaker-than-expected IP and retail sales suggest that the 4Q23 GDP rebound should be a bit softer than expected. Industrial production data from Korea and Japan confirmed our view that global demand for IT and vehicles is solid. We believe that manufacturing will recover further in the current quarter as the two countries will likely benefit the most from the semiconductor upturn and vehicles' inventory stocking.
- **South Korea:** December industrial production (IP) was up 0.6% MoM sa (vs revised 3.6% in November, 0.1% market consensus). Semiconductors (8.5%) and vehicles (4.7%) led the

overall growth of manufacturing activity. The welcome news is that the inventory condition improved, especially for semiconductors. Semiconductor shipments jumped 33.6%, reducing inventories by 20.9%. The Inventory cycle should work in favour of near-term manufacturing activity. Samsung Electronics 4Q23 earnings were also just released. These beat the market consensus. Samsung also said that demand for memory for IT was recovering. Production activity was quite solid with all-industry IP gaining for a second month – manufacturing & mining (0.6%), services (0.3%), and public administration (1.0%) gained, but construction output decreased (-2.7%). However, consumption and investment activity were both quite weak. Retail sales (-0.8%) and construction investment (-2.7%) dropped while equipment investment rose 5.5% on the back of the rise in chip-making equipment investment. We believe that strong manufacturing activity will last for some time boosted by the semiconductor and vehicle sectors, while domestic demand-related activity, such as services, construction, and consumption, will likely dampen further in the coming quarters.
- **Philippines:** 4Q23 GDP is set for release today. The market consensus points to a 5.1%YoY expansion, a step down from the revised 6.0%YoY growth in 3Q23. Robust household spending likely provided much of the lift while government outlays also helped support the growth momentum. Meanwhile, capital formation, weighed down by policy tightening, likely remained in contraction. BSP Governor Remolona indicated that a strong 4Q growth number would give him space to hike further as he contends with still elevated inflation.

What to look out for: Fed meeting and China PMI

- South Korea industrial production (31 January)
- Japan retail sales and industrial production (31 January)
- Australia CPI inflation (31 January)
- China PMI manufacturing and non-manufacturing (31 January)
- Philippines GDP (31 January)
- Singapore unemployment (31 January)
- Taiwan GDP (31 January)
- US ADP employment (31 January)
- US FOMC meeting (1 February)
- South Korea trade (1 February)
- Regional PMI (1 February)
- Indonesia CPI inflation (1 February)
- China Caixin PMI (1 February)
- BoE meeting (1 February)
- US initial jobless claims and ISM manufacturing (1 February)
- South Korea CPI inflation (2 February)
- Australia PPI inflation (2 February)
- US NFP and University of Michigan sentiment (2 February)

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