

Asia Morning Bites

Markets re-assess their earlier optimism



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Macro outlook

- **Global:** Tuesday's muted market optimism gave way to muted pessimism as Russia's pivot away from Kyiv was re-assessed and considered by markets to do little to deliver a ceasefire and eventual peace. The S&P fell about 0.6% on the day, the NASDAQ was down more than 1.2%, though the end of the session ended with a slight rally and equity futures suggest dip-buying today. Broad-based dollar weakness was the other theme. The EURUSD jumped up to 1.1160 probably given an upwards push by the grisly German CPI figures. Harmonised index inflation in Germany blew away the 6.8% expectation with a 7.6%YoY outcome. European 2Y bond yields rose (German 2Y +6.4bp and closing in on zero). US bond yields in contrast pulled back a bit, with the 2Y UST yield falling 5.8bp to 2.306% and the 10Y UST yield coming back 4.6bp to 2.349%. Still a positive slope (just). The BoJ's bond-buying yesterday was also quite successful. 10Y JGB yields fell from just under 0.25% to about 0.225% currently, and USDJPY also reversed some recent losses, trading at 122.23 now. There were broad-based gains in Asian FX yesterday too, led by those currencies that have suffered most in recent days – THB, KRW, TWD and JPY. The AUDUSD remained solid but steady at just over 0.75.

Today's G-7 calendar adds more European inflation data with March CPI for France. We also have PCE inflation data for the US which should track the CPI figures higher, along with

household spending and income numbers.

- **India:** Fiscal deficit figures for February are due out this evening. India's FY23 deficit target is a relatively unambitious 6.4% of GDP. But even this may be pressured by the recent rise in commodity prices. We note that the state-owned oil companies are now beginning to pass on crude price increases in retail gasoline prices. There is a limit to how long they can absorb crude gains, and that limit seems to be being reached. February infrastructure industry production and 4Q21 current-account figures complete the data for India today.
- **Australia:** February's 43.5% increase in building approvals versus the 5.0% consensus expectation requires a double-take, even considering the bounce back from the January 27.9% decline. Combined with 7.9%YoY private sector credit growth, pressure continues to build on the Reserve Bank of Australia to begin to unwind its highly accommodative stance.
- **China:** Official PMI data from China is due this morning. This data will reveal manufacturers' and service providers' assessment of conditions when Shenzhen and Shanghai were under lockdown. Keeping in mind that PMIs are a monthly directional comparison metric, some weakening should be expected.
- **South Korea:** February IP rose 0.6%MoM sa (vs 0.3% in January), beating the market consensus of -0.2%. IT production (e.g. semiconductors and electric parts) gained strongly while machinery & equipment declined. Services (-0.3%) and construction (-8.5%) activities were weak, mostly relating to the surge of Omicron. In sum, all industry production was down -0.2% in February, marking the second monthly drop.

The Business Sentiment Index (BSI) for manufacturers dropped sharply by 8pts to 85 (vs 93 in February) while that for services fell by 2pts. The current situation is hurting business sentiment overall, but less in the service sector, where relaxation in mobility rules and fiscal policy stimulus are expected to turn more favourable.

- **Japan:** February IP rebounded by 0.1% MoM sa, the first rise in three months, though a smaller gain than the market consensus of 0.5%. Shipments declined by 1.3%, and as a result, the inventory ratio rose 3.0%. We think that this latest monthly gain will be only short-lived as some factories partially shut down their operations due to earthquakes in early March.

What to look out for: US non-farm payrolls and geopolitical developments

- South Korea industrial production (31 March)
- China manufacturing and non-manufacturing PMI (31 March)
- Thailand trade balance (31 March)
- Hong Kong retail sales (31 March)

- US initial jobless claims (31 March)
- Japan tankan survey (1 April)
- South Korea trade balance (1 April)
- China Caixin PMI manufacturing (1 April)
- Indonesia CPI inflation (1 April)
- US non-farm payrolls, ISM manufacturing (1 April)

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