Asia Morning Bites 31-October 2022

China PMIs in the spotlight today as Covid cases rise again

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Macro outlook

Global markets: US Stocks finished last week on a winning streak after 4 out of five days of gains for the S&P500 (even the one down day was fairly muted The index rose 2.46%, while the NASDAQ, which had been hit over the week by soft earnings and sales projections from major firms, rose 2.87%). The same cannot be said of Chinese stocks. The CSI300 finished down most days last week including Friday. US Equity futures are pointing to an essentially flat open today, with only a slight downward bias, which should leave most Asian markets (though perhaps not those in China) open to gains today. Currency markets (and bond markets) aren't quite in synch with equities. EURUSD edged fractionally lower to 0.9959 and the AUD is back to just above 64 cents, while Cable is barely higher at 1.1599 while the JPY has returned to weakening, reaching 147.66. In other Asian FX space, moves have been quite muted, with the CNY showing the most weakness, moving up to 7.2524 from 7.229. The KRW was also soft, rising to 1421.60. At the other end of the spectrum, the PHP gained 0.43% on Friday taking it to 57.98. There were further outsize moves on bond markets at the end of last week. The 2Y US Treasury yield surged back by 14bp, as pivot doubts set back in, and 10Y US Treasury yields rose 9.4bp to 4.012%.

G-7 macro: Friday's data releases included German October CPI inflation, which rose more than expected to 10.4% from 10.0% in September. The equivalent harmonised index inflation rate rose to 11.6% YoY. In contrast, in the US, the PCE deflator inflation rate for September rose slightly less than expected, coming in flat at 6.2% YoY, while the core rate also slightly undershot expectations, rising only to 5.1% from 4.9% (5.2% expected). University of Michigan 1Y inflation expectations also drifted off by 0.1pp to 5.0%, while the 5Y rate remained at 2.9%. None of which really fits in with the price action in the bond market on Friday. Today, Eurozone CPI due today will likely go the same way as the October German figures, namely rising, with some upside risk to the consensus forecast of a 10.3%YoY rate. German retail sales for September are expected to fall sharply. It's a pretty quiet day for US data.

China: PMIs for October will be released this morning at 09:30 Hong Kong / Singapore time. The data could show a mixed bag of growth and contraction in sub-indices of both manufacturing and non-manufacturing PMIs. There was a long holiday in October, which should lead to increases in retail and travel on a monthly basis. This should also result in stable month-on-month manufacturing even though October is still the peak-export season in China. Adding more complications is the number of covid cases, which climbed towards the end of October and should lead to a fall in activity in the last week of October. Adding up all these factors means there is more uncertainty in the economy.

The number of Covid cases has climbed and some infection cases from a Foxconn factory have returned to their hometowns, which may increase the number of Covid cases further in the less healthcare-equipped rural areas. This will drag on production and exports for the economy in November. Depending on the number of Covid cases in big cities and therefore the scale of possible lockdowns, we should be cautious about the growth prospect of the economy in the coming months.

Korea: September IP was weaker than expected, and also weaker than what last week's 3QGDP had suggested. Manufacturing IP contracted -1.8% MoM in September (vs -1.4% revised August, -0.8% market consensus), recording the third monthly drop. Weakness in September was mainly driven by semiconductors (-4.5%) and basic metals (-15.7%). POSCO closed some facilities due to a typhoon in September and expects to gradually recover within a few months. Service sector output, which was the driver of growth, declined -0.3% in September (vs 1.8% in August) with retail/wholesale and health/social welfare down -2.1% and -1.0%, respectively.

The forward-looking orders data was a bit mixed. Machinery orders declined in September but still recorded a solid gain in three-month sequential terms. For construction orders, these rebounded sharply in September, mainly led by non-residential construction such as factories, warehouses, and civil engineering.

Japan: Monthly activity data has been mixed. September Industrial production declined -1.6%MoM sa in September (vs 3.4% in August, -0.8% market consensus). In contrast, retail sales were stronger than expected (+1.1% in September vs 1.4% in August, 0.8% market consensus) with motor vehicles and household machines up sharply by 11.1% and 14.6% respectively.

India: Fiscal deficit numbers for September are due later today. The deficit tally has been broadly keeping track with what is needed to meet the Government's 6.4% (GDP) deficit target for the fiscal year, so the appropriate metric here is how they perform relative to last year's equivalent release, which came in at INR58,852 Crore.

Australia: September retail sales rose by 0.6%MoM, higher than expected, and maintaining a strong run of readings. Floods in October in SE Australia may provide a speedbump. But for now, these numbers show few signs that spending is slowing enough to bring prices down.

What to look out for

- South Korea industrial production (31 October)
- Japan retail sales (31 October)
- Australia retail sales (31 October)
- China PMI manufacturing and non-manufacturing (31 October)
- Thailand trade (31 October)
- South Korea trade (1 November)
- Indonesia CPI inflation (1 November)
- US ISM manufacturing and JOLTS (1 November)
- South Korea inflation (2 November)
- Australia building approvals (2 November)
- Australia trade balance (2 November)
- US trade balance, durable goods orders and initial jobless claims (2 November)
- Japan Jibun PMI (3 November)
- Philippine trade and inflation (3 November)
- Thailand CPI inflation (3 November)
- Singapore retail sales (3 November)
- US non-farm payrolls (3 November)

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