

Asia Morning Bites

Following rising speculation, will the BoJ tweak policy today? Chinese PMI data also due



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Global Macro and Markets

- **Global markets:** US stocks bounced off recent lows on Monday. Both the NASDAQ and S&P 500 gained more than a per cent ahead of this week's expected no-change FOMC meeting. Equity futures suggest that today's open may take back some of these gains. Chinese stocks also had a reasonable day. The CSI 300 rose 0.6%, but the Hang Seng was more or less unchanged on the day. US Treasury yields also rose on Monday. 2Y UST yields rose 5.2bp to 5.054%, while 10Y yields rose 6bp to 4.894%. There was no macro data of note for the US on Monday driving these moves, and this close to the FOMC meeting, no Fed speakers either due to the blackout period. Despite the rise in yields, the USD had a softer day. EURUSD rose to 1.0613 in spite of weak GDP and inflation figures (see below) and also the failure of the EU and Australia to agree on a free trade deal due to disagreements over agriculture access. The AUD rose to 0.6366, Cable rallied to 1.2165, and the JPY dropped back briefly through 149 on speculation of further tweaks to BoJ policy at today's meeting (see below), though it is currently 149.14. Other Asian FX also rallied against the USD on Monday. The THB and KRW led gains. The CNY dropped to 7.311.
- **G-7 macro:** German GDP was slightly less awful in 3Q23 than expected, but still fell 0.1%QoQ ([see here for more by Carsten Brzeski](#)). The flip side of this is that this economic

weakness is weighing on inflation, which fell to 3.8% YoY in October, [down more than expected from the September rate of 4.5%](#). Eurozone GDP and inflation are released today, so with the German figures already out, there is some chance of an undershoot to the respective consensus expectations of 0.0% QoQ and 3.0%YoY for these figures. House price data and the Conference Board's consumer confidence survey are today's US data offerings. None of these releases look likely to alter the expectation for a pause at the Fed's 2 November meeting.

- **China:** Official PMI data is due at 0930 (HKT/SGT) today. Both manufacturing and non-manufacturing surveys are expected to confirm the slight firming in activity suggested by other recent activity data.
- **Japan:** The BoJ has its policy meeting today. Speculation has been growing over the last couple of days that they may take steps to relieve pressure on Japanese government bonds (JGBs) and the JPY. Yesterday, local news media Nikkei, reported that the BoJ may allow the upper limit for 10Y JGBs to rise above 1% and also make some adjustments to their bond purchase operations. The latest quarterly outlook report will also be closely watched. We think that the BoJ will revise up its FY24 inflation forecast to above 2%, but leave untouched the FY25 forecast number. That way, they can maintain that sustainable inflation is not yet reached or that they are not yet confident about reaching the sustainable inflation target, which will buy them some more time to keep their negative interest rate policy until next year. Still, if FY24 inflation is above 2% then the market's expectations for a policy change in early 2024 will rise.
- Japan's September monthly activity data was a bit soft. September industrial production (IP) rebounded less than expected (0.2% MoM sa vs -0.7% in August, 2.5% market consensus) while retail sales unexpectedly dropped -0.1% (vs revised 0.2% in August). As September IP and retail sales were softer than expected, we think 3Q23 GDP is likely to record a small contraction. However, labour market conditions remained tight and showed some improvement. The jobless rate edged down to 2.6% in September (vs 2.7% in August, 2.6% market consensus) and labour participation rose to 63.3% from the previous month's 63.1%. Also, the job-to-applications ratio was unchanged at 1.29.
- **South Korea:** Monthly activity data was solid as suggested by 3Q23 GDP (0.6% QoQ sa). All industry industrial production (IP) rose for a second month (1.1% MoM sa) in September with manufacturing (1.9% MoM sa), services (0.4%), construction (2.5%), and public administration (2.3%). Among manufacturing industries, semiconductors (12.9%) and machinery (5.1%) were big gainers, offsetting a big drop in motor production (-7.5%). Solid demand for high-end chips, which are higher value-added and have higher prices than legacy chips, is the main reason for the rise in chip production. Meanwhile, production cuts in legacy chips continued as inventory levels came down, and we believe that this differentiated trend will continue for the time being. We think October exports will finally bounce back after twelve months of year-on-year declines on the back of a recovery in semiconductors. Other activity data also made gains. Retail sales (0.2%) rebounded marginally after having fallen for the previous two months. Equipment investment gained (8.7%) with increases in transportation (12.6%) such as aircraft, and special machinery (7.3%) such as semiconductor manufacturing machines. Construction also rose 2.5% despite the contraction in residential building construction as civil engineering rose solidly (20.0%). September monthly activity data showed some recovery in the domestic economy

but forward-looking data such as machinery orders (-20.4% YoY) and construction orders (-44.1%) all fell, suggesting a cloudy outlook for the current quarter and we expect 4Q23 GDP to decelerate.

What to look out for: BoJ meeting and China PMI reports

- South Korea industrial production (31 October)
- BoJ meeting, Japan retail sales, industrial production and labour data (31 October)
- China PMI manufacturing and non-manufacturing (31 October)
- Taiwan GDP (31 October)
- Philippines bank lending (31 October)
- US Conference board confidence (31 October)
- Australia Judo PMI manufacturing (1 November)
- South Korea trade (1 November)
- Regional PMI manufacturing (1 November)
- Indonesia CPI inflation (1 November)
- US ISM manufacturing, ADP report, JOLTS report (1 November)
- FOMC decision (2 November)
- South Korea CPI inflation (2 November)
- Australia trade balance (2 November)
- Malaysia BNM policy (2 November)
- US factory orders and initial jobless claims (2 November)

- Australia retail sales (3 November)
- China Caixin PMI services (3 November)
- Singapore retail sales (3 November)
- US NFP and ISM services (3 November)

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