

Asia Morning Bites

- China's National People's Congress starts today and should be the main focus for Asia;
- South Korea's fourth quarter 2023 GDP hit 2.2% YoY;
- Tokyo CPI inflation provides more room for the BoJ to hike;
- and Philippine inflation could pick up slightly



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Global macro and markets

- **Global Markets:** US Treasury yields started the week by reversing the declines in yield with which they finished last week. 2Y yields rose 7bp, and the yield on 10Y bonds rose 3.3bp to 4.213%. This may be due to a hawkish comment by the Fed's Raphael Bostic, who suggested that the Fed would pause after just one cut in the third quarter of this year. This rise in yields has had a mixed impact on the USD. EURUSD drifted higher to 1.0858. The AUD in contrast slid back to just over 65 cents. Cable tracked the EUR higher to 1.2692, and the JPY lost a bit of ground to the USD, rising to 150.44. Asian FX was also mixed. Making gains, were the MYR, and THB, but the IDR lost ground. Most of the rest of the Asia FX pack was fairly rangebound. US stocks dropped slightly yesterday, and equity futures are suggesting another day in the red today. Chinese stocks traded sideways ahead of the two sessions.
- **G-7 Macro:** There was nothing of note out of the G-7 yesterday, and today is much the same.
- **China:** The main event of the "Two Sessions" kicks off today, as the government work report will be delivered at the start of the National People's Congress (NPC), setting the key economic targets as well as deciding the policy tone for the year. We are expecting the growth target to remain unchanged at "around 5%", and for a more supportive fiscal policy

stance signalled by a higher fiscal deficit to GDP target from 3% to 3.5%, and a slightly higher special government bond issuance target. Other major points to watch will be if there are any changes to the descriptive terms for fiscal and monetary policy, as well as any new policy signals or omissions of previous policy signals. Markets may be looking to see if there are signals to support the real estate and consumption sectors.

- **Japan:** Tokyo's inflation reaccelerated in February, rising to 2.6% YoY (vs 1.8% in January, 2.5% market consensus). Excluding fresh food, core inflation rose 2.5%, in line with the market consensus. The pickup was mainly due to the roll-off of government energy subsidy programmes, with utility prices falling -7.4% in February (vs -18.4% in January). In a month-on-month comparison, inflation rose 0.3% MoM sa, rising for the third month in a row. Goods and service prices were up by 0.3% and 0.2% respectively.
- With inflation above 2% and strong capital spending data released yesterday, market speculation is growing that the BoJ could raise rates as early as March. We have revised our fourth quarter 2023 GDP forecast up to +0.2% QoQ sa (vs -0.1% earlier estimate). Stronger GDP may give the BoJ more confidence to hike. So, we have changed our BoJ call from June to an April hike. We believe that March is too early for the BoJ to end its negative interest rate policy (NIRP) and raise rates. Inflation will remain choppy due to the government programmes and the BoJ would like to confirm the underlying trend of inflation in the coming months. The preliminary Shunto (spring wage settlement) results will be out just before the March meeting, but the BoJ would like to check if wage growth is passing through into household consumption. We also expect the central bank to issue written guidance to end NIRP or change its forward guidance on the statement in March. It is also important to watch how the government's view of inflation and growth has changed. The Cabinet Office should declare an end to deflation and we believe that the Cabinet Office will use its monthly economic report to do this.
- **South Korea:** Revised fourth quarter 2023 GDP has just been released, and shows an expansion of 0.6% QoQ sa, 2.2% YoY, the same as earlier estimate. Exports (+0.9%), imports (+0.4%), and facility investment (+0.3%) were revised up, while construction investment (-0.3%) was revised down.
- **Philippines:** February inflation is set for release today. The market consensus points to a 3.0% YoY increase in prices or roughly a 0.3% change from the previous month. Surging inflation for rice (25% YoY) is the main driver for inflation although most other food items such as meat, fish, chicken and vegetables are likely to post slower inflation. This would be the 3rd month that inflation is within the Bangko Sentral ng Pilipinas' inflation target band, giving them room to cut policy rates once the Fed starts its rate-cut cycle.

What to look out for: China Two Sessions and Philippines inflation

- Philippines inflation (5 March)
- China Caixin PMI services (5 March)
- Singapore retail sales (5 March)
- US factory and durable goods orders plus ISM services (5 March)
- Fed's Harker speaks (5 March)
- South Korea CPI inflation (6 March)
- Australia GDP (6 March)
- US ADP employment (6 March)
- Fed's Powell and Barr speak (6 March)

- Japan labor cash earnings (7 March)
- Australia trade balance (7 March)
- China trade balance (7 March)
- Malaysia BNM policy (7 March)
- Taiwan CPI inflation (7 March)
- ECB policy (7 March)
- US trade balance and initial jobless claims (7 March)
- Fed's Daly and Kashkari speak (7 March)
- Fed Powell's testimony to congress (7 March)
- South Korea current account (8 March)
- Japan current account (8 March)
- Taiwan trade balance (8 March)
- US change in non-farm payrolls (8 March)
- Fed's Mester speaks (8 March)

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