

Asia Morning Bites

The return of the "higher for longer" narrative throws cold water on the "Santa rally". Weak Japanese cash data and Taiwan's December inflation numbers are the main interest in a relatively quiet day in Asia ahead of the US payrolls report. As ever, anything is possible with this



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Macro outlook

- **Global Markets:** If Wednesday was the Santa rally, was yesterday the Grinch sell-off? US stocks more than reversed their earlier gains. The S&P500 fell 1.16% and the NASDAQ was down 1.47%. One factor that could account for the sell-off is higher bond yields. 2Y US Treasury yields rose 10.4bp. 10Y yields rose far less, only increasing by 3.5bp to 3.718%. Fed funds futures implied yields rose, especially implied yields for the end of 2023, which are increasingly pricing out any Fed rate cuts. Maybe markets are listening to the Fed after all, though we are not sure they are wise to do so. The Fed's Esther George is quoted online as saying that the Fed should hold rates above 5% well into 2024. Though James Bullard, who until recently was taking a similarly hawkish line, now thinks that rates are reaching a "sufficiently high level". Take your pick. As a house, I think we side more with Bullard. Asian stocks yesterday were positive. The CSI 300 rose 1.94% and the Hang Seng index rose 1.25%. Both may come under some downward pressure today following the US lead. Falling risk sentiment has also helped the USD, and EURUSD is now down to 1.0525. The AUD is back below 68 cents, and Cable is at the low end of 1.19, while the JPY has risen back

above 133. Asian FX was fairly muted again yesterday, though on balance tended to make small gains against the USD, which we may see unwound today as the mood has shifted back in favour of the USD.

- **G-7 Macro:** As well as the Fed comments, we also had a solid ADP employment report yesterday, and that also probably shifted the mood back towards a “higher for longer” setting. Today we have the US non-farm payrolls release. And the published consensus view for a 200,000 employment gain may be looking a bit low as a result of the ADP numbers, though this is far too fickle a data source to make any strong deductions ahead of time, whatever the other data is showing. Japan’s labour cash earnings figures (just out) were resoundingly disappointing. Year-on-year growth of 0.5% in November will encourage Bank of Japan Governor Kuroda to believe that he is right not to respond more to high headline inflation rates. There were also downward revisions to the October figure.

What to look out for: US non-farm payrolls

- Taiwan CPI inflation (6 January)
- US non-farm payrolls, ISM services, durable goods and factory orders (6 January)

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