

Asia Morning Bites

Fourth quarter Australian GDP growth slows from the previous quarter and South Korea's inflation rises back above 3%



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Global Macro and Markets

- **Global markets:** US Treasury yields reverted to declines yesterday ahead of today's testimony from Fed Chair Powell to Congress. The 2Y yield dropped 4.4 basis points while the yield on the 10Y bond fell 6.1bp to 4.153%. It seems unlikely that Powell will change the message he and his colleagues have been giving recently, which is that they are in no rush to cut rates and want more certainty that inflation is tamed before doing so. Consequently, it feels as if the logical market response will be for yields to go up again today. EURUSD is practically unchanged from this time yesterday, though it did pop higher to 1.0875 at one stage. It is now 1.0857. The AUD is also little changed at just over 65 cents but fell through the 65 level at one stage yesterday before recovering. Cable is a little stronger at 1.2707, and the JPY has crept back under the 150 level after yesterday's Tokyo CPI numbers. Most of the Asian FX pack lost ground to the USD yesterday, though losses were modest. The MYR was the weakest of the bunch, losing 0.27% closely followed by the KRW and IDR. [USDCNH was fairly rangebound in response to the outcome of the Two Sessions](#). Chinese stocks were quite mixed yesterday. The Hang Seng fell 2.61%, but the CSI 300 managed to rise 0.7%. US equity markets are beginning to look a bit jittery. The S&P 500 fell 1.02% yesterday and the NASDAQ was down 1.65%. US equity futures suggest a slight bounce at today's open.

- **G-7 macro:** [A bigger than expected decline in the ISM services PMI yesterday](#), including a drop of the employment index into contraction territory is an interesting deviation from the strong US data that has perplexed analysts for months now. And though this index has a very poor record of calling the direction on non-farm payrolls on a month-by-month basis, it will raise speculation that the employment data may soon surprise on the downside. Apart from Powell, who speaks at 23:00 HKT/SGT, it is a fairly quiet day. US JOLTS job openings may provide some further, though backward-looking information on the state of the US labour market, and there is also a Bank of Canada rate decision (no change expected) ahead of tomorrow's ECB meeting. [Here is a link to the cheat sheet for that ECB meeting.](#)
- **Australia:** Fourth quarter 2023 GDP surprised forecasters by not surprising. The consensus forecast for GDP in 4Q23 was 0.2%QoQ and 1.5% YoY, which is exactly what happened. But following stronger-than-expected capex data last week, and stronger-than-expected net export data yesterday, the whisper number was certainly higher. Household consumer spending grew at only a 0.1% QoQ rate.
- **South Korea:** Consumer prices rose more than expected in February to 3.1% YoY (vs 2.8% in January, 3.0% market consensus). In month-on-month terms, inflation accelerated by 0.5% MoM nsa from a 0.4% rise in January. The Lunar New Year holiday pushed up fresh food prices, while gasoline prices also gained due to rising global oil prices. Agricultural and oil products prices jumped to 8.9% YoY in February from 4.6% in January. Headline CPI rose for the first time in four months, but we think this is a temporary increase with base effects partly contributing to the rise. Core inflation excluding food and energy stayed at 2.5% for a second month, in line with the market consensus. We think the Bank of Korea (BoK) will pay more attention to core inflation being stabilized than the choppy headline figures. Core inflation, especially personal service inflation, remains sticky at current levels and the BoK's hawkish stance will continue in the coming months. We expect the BoK to start easing in 3Q24, but monetary policy should remain in restrictive territory throughout 2024. The higher-for-longer interest rate environment will weigh on already weak domestic growth, so we expect GDP to decelerate from the current quarter through most of 2024.

What to look out for: Fed Chair speech tonight

- 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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