Asia Morning Bites

RBA decision out later - 25bp hike expected. Markets are pricing in more hikes this year in the US, with less easing by year-end

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Macro outlook

- **Global Markets:** US stocks continued to lose ground yesterday in the wake of Friday's payrolls shock. The S&P500 dropped by 0.61%, and the NASDAQ was down exactly 1.0%. Balloon antics and the rising possibility of more trade restrictions may have weighed on Chinese stocks which also fell. US Treasury yields kept on rising. The yield on the 2Y note rose a further 18.4bp, with markets pricing in a good chance that Fed funds get to 5.25%, and that they only just start to edge down by the year-end. 10Y US Treasury yields rose a further 11.5bp to 3.64%. The USD remains bid, and EURUSD is currently trading at 1.0727. The AUD and GBP are both steadier than on Friday, but still slightly weaker than this time yesterday. The JPY has also drifted weaker, with more speculation about the Bank of Japan's replacement for outgoing Governor Kuroda. Asian FX weakened across the board yesterday. Declines were led by the THB (-2.14%), KRW (-1.9%) and PHP (-1.33%)
- **G-7 Macro:** There was nothing of much note in the G-7 macro calendar yesterday. German factory orders were a bit better than had been expected in December, but still down 10.1%YoY. Eurozone retail sales were very soft (-2.7%MoM, -2.8%YoY). Germany's December industrial production (consensus expectation is for -1.6% YoY) and the US December trade balance (-USD68.5bn expected) are also on the calendar.

- **Australia:** The Reserve Bank of Australia (RBA) will almost certainly raise the cash rate a further 25bp to 3.35% later today. The recent run of much higher-than-expected inflation means that today's decision is firmly in the bag. Larger hikes do not seem probable, though the inflation story does likely keep the RBA hiking for longer than previously thought. We now see the cash rate rising to 4.1% before it peaks.
- **China**: The government has released a policy outline for building a high-quality country by 2025. The outline is very broad and covers many areas, including the service sector, technology, manufacturing and social governance. As such, it is a policy outline to grow the private sector and strengthen the government's governance ability. "Quality" should form part of the goals set for 2023 by the upcoming "two sessions" meetings. It follows that the government should target both the growth rate (around 5%) and quality. These two targets will mean a possible further deterioration in the fiscal health of local government, a risk that is rising following Covid spending in 2022.
- **Taiwan:** Export and import data released today should contract by around 20%YoY, mainly due to weak global demand for semiconductors. This weakness should continue into 1Q23. The main question is whether this weakness will continue through the rest of the year, as the weakness in the US and European economies looks as if it may be less severe, but go on for longer this year. In this case, we could see a smaller but longer contraction in Taiwan's trade.
- **Japan**: Japan released two data points this morning: labour cash earnings and household spending. The results were mixed. Nominal labour cash earnings for December rose 4.8% YoY, which was more than had been expected (0.5% in November and 2.5% market consensus). This was the largest gain since 1997. We think this jump is only temporary as companies paid winter bonuses (7.6%YoY) to offset the recent spike in inflation. Basic salaries rose 1.9% YoY which is similar to the recent trend. Real cash earnings rose 0.1% YoY, the first rise in nine months. However, the increase in wages did not lead to an increase in household spending, which dropped -1.3% YoY (vs -1.2% in November, -0.4% market consensus).
- The three-month annualized spending figure did improve from the previous quarter, so we expect 4QGDP to rebound from the contraction in the third quarter. We believe that today's above-3% wage growth is a temporary boost and we need to see if it can be sustained for a while, which will be determined by the Spring wage negotiations. As we mentioned in our monthly report, the Bank of Japan won't likely move as fast as most in the market hope.
- **Philippines:** The Philippines reports headline inflation today. Market consensus points to a 7.6%YoY increase for prices but we could see headline inflation settle higher at 7.8%YoY. Although headline inflation is expected to dip from the 8.1% reported in December 2022, price pressures remain broad-based with high inflation reported for more than 70% of the CPI basket. This type of broad-based inflation pressure should convince the Bangko Sentral ng Pilipinas (BSP) to increase policy rates next week. We expect a 25bp rate hike from the BSP as Governor Medalla keeps up the fight against persistent inflation.

What to look out for: RBA meeting and US trade

- Australia RBA meeting and trade balance (7 February)
- Philippines CPI inflation (7 February)
- Taiwan trade balance (7 February)
- US trade balance (7 February)
- South Korea BoP current account (8 February)

- India RBI policy meeting (8 February)
- US mortgage MBA applications (8 February)
- Fed's Powell, Williams, Cook and Barr speak (8 February)
- Taiwan CPI inflation (9 February)
- Japan machine tool orders (9 February)
- US initial jobless claims (9 February)
- Fed's Kashkari and Waller speak (9 February)
- Japan PPI inflation (10 February)
- China CPI inflation (10 February)
- Malaysia GDP (10 February)
- US University of Michigan sentiment (10 February)
- Fed's Waller and Harker speak (10 February)

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