

Asia Morning Bites

All is fairly quiet on the data front...but bond markets are still rallying...some suggest that this has gone too far...



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Macro and markets outlook - bonds the star of the show

Global Markets: US equities registered further small declines yesterday and equity futures are setting us up for further declines today. Chinese stocks have also steadied after their recent return of optimism. Bond markets were far less humdrum. 2Y US treasury yields fell 11bp while 10Y yields fell 11.5bp to 3.417%. There was no substantial market-moving data out yesterday, nor Fed comments to explain this. One possibility is that bonds are simply making room to rise at next week's FOMC meeting. Peak Fed funds implied rates are only pricing in 4.195% in June. And that seems almost 10bp too low, as we still look for a further 50bp of tightening after next week's 50bp hike. Some newswire stories today suggest that the recent bond rally has become overbought. Charts lend some support to this suggestion. The EURUSD exchange rate pushed back up above 1.05 yesterday, mainly on the back of the further declines in US bond yields. Other G-10 currencies have also gained against the USD. Otherwise, it was a mixed day for Asian FX. The PHP was the best-performing currency on the day. Seasonal remittances, stock inflows and a reaction to the drop in the October unemployment rate to 4.5% are all vying as the catalyst to explain these outsize moves, which have left the USDPHP rate at 55.47. Manila is off today for a public holiday. The CNY also made further gains yesterday and is now 6.97. But it wasn't such good news across the board in Asia. The KRW, THB and IDR all lost ground on the day.

G-7 Macro: With the exception of the final revision of 3Q22 Japanese GDP, it is a very quiet day for G-7 Macro. Some articles today are highlighting the University of Michigan inflation expectations figure due out tomorrow as being the next big challenge for markets, suggesting that it may stall. I'd be surprised if it had much effect either way. It usually doesn't.

China: The government has eased Covid measures further, while a Politburo meeting on 6th December pinpointed growth as the main policy initiative going forward. But we are not overly optimistic about either of these announcements leading to a significant uptick in economic growth. Even if there was a decrease in mobility restrictions before the Chinese New Year, many consumers may avoid crowded places. As such, we do not expect a sizeable jump in consumption in 1Q23.

Australia: October trade data due at 0830 SGT is forecast to show a slowdown in export and import growth, but deliver a small contraction of the trade surplus to about AUD12bn. This is unlikely to have much impact on the AUD.

Japan: The final 3Q22 GDP revision showed a slightly smaller revision than initially. GDP contracted by 0.2%QoQ (-0.3% previously). A slightly smaller drag from net trade (-0.6pp vs -0.7pp) and a small boost from inventories (0.1pp from -0.1pp) seem to have been enough to overcome a weaker consumer spending figure (0.1%YoY down from 0.3%).

What to look out for: Not a lot!

- Japan: Final revision of 3Q22 GDP data - already released
- Australia: October Trade data

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