Asia Morning Bites

China inflation out this morning with a focus on PPI. US initial jobless claims and Challenger job cuts up next before we get payrolls data on Friday

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Global Macro and Markets

- **Global Markets:** US Equities struggled for most of Wednesday, though managed a late rally to leave them up on the day, though barely. The S&P 500 gained 0.14%, while the NASDAQ rose 0.4%. Equity futures are currently giving no clear direction. Chinese stocks did less well. The CSI 300 fell 0.36%, while the Hang Seng index dropped 2.35%. The Fed's Powell repeated his earlier remarks about the prospects for higher rates and possibly bigger hikes at round-2 of his testimony to Congress, which didn't help sentiment (see more below). 2Y US Treasury yields continued to move higher, reaching 5.05%, with Fed funds futures implied peak rates reaching 5.685% in the October contract. That seems a bit high - but ask us again after tomorrow's payrolls. The 10Y US treasury yield also rose, but only by 2.8bp and still sits below 4% - just - at 3.991%. EURUSD retreated back to 1.0548 yesterday and showed few signs of rising. Other G-10 currencies followed suit. The AUD dropped to 0.6591. Cable is now down to 1.1848, and the JPY has risen to 137.27. Other Asian FX was also mostly weaker yesterday, with the KRW, THB and MYR all weakening by more than a per cent against the USD. The CNY was roughly stable at 6.9592.
- **G-7 Macro:** Although essentially the same message, Powell's tone yesterday to Congress

was regarded by many commentators as slightly softer, noting that data would be the final arbiter of the size of the next hike and that no decision on the size of the March hike had yet been made. The Fed's Beige Book, which was released in the early hours of our Asian morning, showed about half the districts reporting economic activity expanded at a modest pace, with the rest showing little or no change. A couple of districts reported stronger retail spending than normal for the time of year, and travel and tourism held up strongly. The ADP survey showed job gains of 242,000 in February, though the January figure was not much changed at 119K. It's hard to see this as clarifying the employment picture ahead of tomorrow's payrolls release, which remains a lottery. Overall, this latest set of data suggests that the Fed still has work to do, though how much remains an open question, and the expectations for economic activity in the months ahead, according to this latest Beige Book, were fairly downbeat. Eurozone GDP for 4Q22 managed zero growth, thereby just enabling the region to avoid reporting a technical recession, with 3Q22 growth of just 0.1%. This is nit-picking though. The Bank of Canada left rates unchanged at 4.5%. US Challenger job cuts and jobless claims will be in focus later.

- **China:** CPI should show a slower YoY increase in February as consumption was quieter in the month after the long holidays in January. PPI should still be in yearly contraction. We believe that infrastructure growth will only pick up slowly. The central government is concerned about the rising risk of local government debt. As such, infrastructure, the funding for which comes mainly from local governments, will only be a supplementary measure to support growth when consumption increases slower than expected.

What to look out for: China inflation and US initial jobless claims

- China CPI and PPI inflation (9 March)
- Malaysia BNM policy meeting (9 March)
- US initial jobless claims (9 March)
- Fed's Barr speaks (9 March)
- Japan PPI inflation (10 March)
- US NFP (10 March)

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