

## Asia Morning Bites

Covid cases rise in China to levels last seen in April, knocking sentiment and raising the spectre of lockdowns and supply disruptions again



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Source: shutterstock

### Macro outlook

- **Global Markets:** US stocks made some unconvincing gains yesterday, recovering from a steep loss at one stage after pulling back from higher levels. Both NASDAQ and S&P500 were up about half a per cent at the close. Chinese stocks fell again, probably as covid cases pushed up to levels we haven't seen since April (see also China section below). Despite all the positive talk about slowly unwinding zero-Covid and experimenting with bigger events, it looks as if more lockdowns might be on their way. US equity futures are still pointing to small increases at today's open. EURUSD pushed a little bit further above parity, reaching 1.0078 now. The AUD has recrossed above 65 cents. Cable has risen to 1.1548 and the JPY has dropped back to 145.50. Asian FX was mostly positive across the board yesterday. The KRW was the main outperformer, dropping to 1385. Bond yields did at least stop rising, which means that the bond and equity/currency markets are more in synch than they have been in recent days. The 2Y US Treasury yield backed off by 7.1bp, while the 10Y yield came back by 9bp taking the yield to 4.123%.
- **G-7 Macro:** US Mid-term elections took place yesterday, though the absence of much on the newswires suggests that we still don't have much idea what the outcome is going to be, though most observers are looking for Republican gains. Our US team will be posting

updates as and when possible, so keep an eye out on <https://think.ing.com/macro/north-america>. Yesterday's US October NFIB survey came in a little lower, but in line with expectations. There was a further small decline in the index for higher selling prices, which now sits right on 50% of firms. Eurozone retail sales yesterday were actually a little stronger than expected, but still fell 0.6% YoY. It is a very light calendar for macro releases today.

- **China:** Covid cases have climbed. In Guangzhou city, and factory delivery is now being affected by restrictive land logistics, which could impact export delivery even though ports are currently operating "normally". These effects should be reflected in the coming November export data.

October CPI should show inflation remaining very subdued due to weak consumption and as indicated by recent service sector PMIs even though the data is for October, the month of the Golden Week holidays. In contrast, PPI should be in year-on-year contraction but should show faster month-on-month growth from higher energy prices. Still, there is no inflation risk as producers cannot pass increased costs to consumers. Instead, this should result in thinner profit margins.

- **Korea:** The jobless rate stayed unchanged at 2.8% in October, which was slightly better than the market consensus of 2.9%. But we think the details were soft. Major industries such as manufacturing, whole/retail sales and transportation lost jobs. And only the hotel and restaurant sector saw an increase in employment. By employment type, the number of wage workers declined for a second month with temporary employment (less than one year of contract) down the most. This is probably because the public vocational program ends at the end of the year. Nonetheless, the labour market, especially services, seems like it is holding up relatively well despite higher interest rates and the slowdown in economic activity.

On the KRW, the last couple of days' price action shows why we call the KRW a high beta currency. The KRW is now around the 1380 level and we will probably see a stronger KRW for a while. However, it is still difficult to interpret this as a change of direction. Foreign investment returned back to local equity markets and credit stress has been relieved temporarily. But the dollar supply/demand conditions have not changed. Until 1Q23, the Fed's tightening and the possibility of a further deterioration in the trade balance due to high energy demand over winter remain negative factors for the KRW.

## What to look out for: US midterm election results and China inflation

- South Korea unemployment (9 November)
- Japan trade balance BoP (9 November)
- China CPI and PPI inflation (9 November)

- US mortgage application (9 November)
- Fed's Williams speaks (9 November)
- Philippines GDP (10 November)
- US CPI inflation and initial jobless claims (10 November)
- Fed's Barkin, Logan and Waller speak (10 November)
- Japan PPI inflation (11 November)
- Malaysia GDP (11 November)
- US Univ of Michigan sentiment (11 November)
- Fed's Mester and George speak (11 November)

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