

Asia Morning Bites

China's Caixin PMI data and Australia's RBA meeting take centre stage today ahead of Wednesday's FOMC



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Markets and Macro

Global Markets: US stocks took a small backstep on Monday after their solid gains last week as bond yields continued to push higher. 2Y US Treasury yields are up about 20bp from their recent low, and 10Y yields are up about 13bp from the same period to sit at 4.05% currently after further small increases in yield yesterday. The S&P500 dropped back by 0.75% yesterday, while the NASDAQ gave up 1.03%. Chinese stocks continued their losing streak. The CSI 300 index dropped another 0.9% yesterday. Selling momentum remains strong despite the index looking “oversold” on RSI measures since mid-September and trading volumes are above average. US equity futures are looking a bit perkier after yesterday’s sell-off, so this may just be “the pause that refreshes”. Chinese equity futures aren’t looking so rosy. Weaker stocks and higher yields helped to support the USD and EURUSD has fallen back to 0.9886. The AUD is little changed after a foray towards the mid-63s yesterday and is now 0.641. Cable has slid back to 1.1473, possibly hurt by a UK Met Office warning of a colder-than-normal winter, raising the risk of energy shortages. The JPY is creeping higher again and is now back to 148.61. It’s probably only a matter of time before we see a new run at 150 and beyond. Other Asian FX news was dominated by a further decline in the CNY, which has pushed back above 7.30. That has dragged a number of other currencies along in its wake, including the THB and INR.

G-7 Macro: Yesterday, the Eurozone managed to avoid a contraction in GDP, growing 0.2% QoQ in 3Q22. But October inflation data was even higher than expected – rising from 10.0% to 10.7% YoY and core measures rose to 5.0% from 4.8%. [So more rate hikes will follow, and a formal recession is all but in the bag.](#) It's just a question of how bad. Today's G-7 Macro news is centred on the manufacturing ISM index, which is also a timely reminder that we have non-farm payrolls on Friday, [as well as the FOMC](#), which is out at 02:00 on Asia's Thursday (SGT/HKT).

China: A slower contraction in the CAIXIN manufacturing activity index from last month is probably the best scenario for today's data release. The surveyed participants are smaller entities compared to the official manufacturing PMI. Given weaker export demand, smaller exporters should face a more difficult operating situation compared to SOEs that are survey participants in the official PMI. [Here is the link](#) of our comments on the worse-than-expected official PMIs.

Australia: We are in a small minority looking for the RBA to revert back to a 50bp hike at today's meeting. We think that central banks "talk a good game" about policy flexibility and being data dependent, so we will see today if this has any meaning after the recent upside surprise to 3Q22 CPI inflation. We acknowledge that the RBA wants to move to a more moderate pace of tightening. But with the cash rate target only 2.6% currently, rates are still very low, and we would argue that the risks of doing too much at this stage of the cycle remain fairly low.

Korea: October exports dropped sharply by -5.7%YoY (vs 2.8% in September, -2.1% market consensus), the first decline since October 2020. Two major export items - semiconductors and petrochemicals - declined the most by -17.4% and -25.5%, respectively. Meanwhile, imports rose 9.9%, mainly due to high commodity prices. Today's weak trade outcome weighs on the economy and supports our view that the current quarter's GDP will contract.

What to look out for

- South Korea trade (1 November)
- Indonesia CPI inflation (1 November)
- US ISM manufacturing and JOLTS (1 November)
- South Korea inflation (2 November)
- Australia building approvals (2 November)
- Australia trade balance (2 November)
- US trade balance, durable goods orders and initial jobless claims (2 November)
- Japan Jibun PMI (3 November)
- Philippine trade and inflation (3 November)
- Thailand CPI inflation (3 November)
- Singapore retail sales (3 November)
- US non-farm payrolls (3 November)

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