

Asia Morning bytes

Asia markets take their cue from last night's US CPI inflation report



Macro outlook

- **Global:** A slightly unusual response to the “on consensus” US CPI print of 7% yesterday. EURUSD popped higher to 1.1444 and echoes the market rumour mill where whispers of dollar peak are getting more audible. Treasury yields gained at the front end, though 10Y yields were stuck in a 1.71-1.75 range though seem to be testing the topside of that this morning. Equities managed to eke out small gains, though these look at risk if yields do nose higher in trading today, though local equity futures looked positive first thing. Further hints that the Fed is on top of the inflation threat came from the Fed's Daly and Brainard overnight. And the Fed's Beige book showed US growth still held back by supply constraints and labour shortages, while national wage rises were “robust” and price gains “solid”. Elsewhere, in the UK, PM Johnson is clinging on to his job after an apology to parliament

following the breaking of his own rules on social gatherings during Covid lockdowns.

- **China:** credit growth was weak in December though that is not unusual at the end of the year. Nevertheless, it is notable that the PBoC's RRR and interest rate cuts did not lead to more credit growth. This suggests that banks are being more cautious as they anticipate more bonds are likely to default. If such thinking is what is driving these figures, then further easing of monetary policy may not yield higher credit growth or faster economic growth. We expect another round of easing to be exercised around the Two Session meetings in March. In Covid-related news, Covid has spread to Dalian, which houses a port for cold supply chain trade. We do not believe the port has yet been affected.
- **India:** CPI inflation for December was 5.6%YoY in December up from 4.9%, a bit lower than the consensus 5.8% (ING f 5.5%), and mostly relates to the reversal of earlier vegetable and other food price increases and a very weak comparison a year ago. Inflation will likely peak next month when we expect the year-on-year rate to hit 6.0%, the top of the RBI's target range. But it should start heading lower in the months that follow, taking some immediate pressure off the RBI to abandon its growth-supportive stance and hike rates. Covid cases reaching 240,000 yesterday also suggest some caution on rates is warranted.
- **S Korea:** Export and Import price data out this morning show prices in of traded goods falling from year-ago levels, though at a slightly faster pace for imports than exports, slightly favouring Korea's terms of trade. All else being equal, this would provide some support to the KRW, which has shown some more signs of resilience in the last few trading days and USDKRW sits a little under 1190 in early trading today.

What to look out for: US retail sales and sentiment

- US PPI inflation and initial jobless claims (13 January)
- Fed official Kashkari speaking engagement (13 January)
- BoK policy meeting (14 January)
- India trade balance (14 January)
- US Michigan sentiment, retail sales and industrial production (14 January)
- Fed officials Barkin and Evans speaking engagement (14 January)

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com