

Asia Morning Bytes

Asia markets likely to follow suit after US tech sell-off overnight



Macro outlook

- **Global:** A few days ago, equity markets were taking reassurance from Jerome Powell that the Fed was on top of the inflation threat and rallied. Last night, they were spooked by similar commentary from the Fed's Brainard and Barkin that rates could rise as soon as March, and from Evans and Harker, who both saw the case for 3 hikes in 2022. Despite a risk-off swing in sentiment, the EURUSD still made gains, reaching about 1.1460 up from 1.1430 this time yesterday. Asian FX was mostly stronger vs the USD. There is a US holiday on Monday, so liquidity could be thin today ahead of that. US Treasuries rallied after their recent sell-off. The 10Y is now just hanging on to a 1.70% handle. 2Y UST yields drifted back below 0.90%. Macro news from the G-7 was thin – just PPI from the US, which at a headline level was a bit weaker than expected, though the pipeline indications from the core

measure kept rising. December US retail sales today is expected to come in soft and University of Michigan sentiment indices will also likely stay weak with a focus also on the inflation expectations component of that survey. In geopolitics, rumours are mounting regarding the survivability of UK PM Boris Johnson, and US-Russia talks on NATO and Ukraine have ended fractiously.

- **China:** China releases December trade data today. We expect strong growth in both exports and imports in December, similar to November. Imports should grow faster than exports, mainly on commodities, ahead of the long Chinese New Year holiday. On Covid, there have been five cases found in Shanghai, which has triggered some localised strict social distancing measures. As the number of cases is still low, it has not yet triggered an escalation of social distancing measures for the whole city. Businesses should be only slightly affected.
- **S Korea:** The BoK hiked the 7-day repo rate 25bp today - in line with consensus though there were good arguments for them to pause this month - Omicron and a sharp spike in the unemployment rate. We expect the BoK will do another 50bp of tightening this year, but the high level of household indebtedness means the peak in rates will probably not be too high.

What to look out for: US retail sales and sentiment report

- BoK policy meeting (14 January)
- China trade balance (14 January)
- US Michigan sentiment, retail sales and industrial production (14 January)

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