

## It's quiet - too quiet...

An essentially flat day yesterday in equity and bond markets, but the US dollar reverts to a weakening trend. Today - it's all about GDP and inflation



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### USD reverts to weakness

The recent financial market correction introduced two-way risk to markets - in particular, it reminded investors that the US dollar can strengthen as well as weaken. But having provided that reminder, it looks as if, in the absence of further turmoil, the previous USD weakening trend is due to resume. The USD dropped around a big figure against the EUR yesterday, against a background of what were essentially flat equity and bond markets. In the region, the JPY was also very strong - some putting this down to safe-haven positioning ahead of today's US CPI release, but in all likelihood - probably just tracking the EUR. The THB maintained its regional strength yesterday, with SGD and TWD also making small gains. All other currencies were basically flat or, in the case of the CNY, slightly weaker against the USD. The PHP maintained its position as regional currency laggard.

1.7% YoY

Consensus for Jan US CPI

Down from 1.9% in Dec

## Today - its all about GDP and inflation

Today sees a rare return to a fundamental focus. Our taste-buds have already been tickled with some 4Q Japanese GDP data, which showed a growth slowdown breaking the previous run of consecutive strong growth figures. 4Q17 GDP was 0.5% (seasonally adjusted annualized rate), missing the 1.0% consensus view. And there were also some substantial downward revisions to previous quarters, indicating that the momentum was not perhaps as strong in Japan as was previously thought.

Singapore's revised GDP provided a somewhat surprising result, with the QoQ annualized figure being revised only slightly higher at 2.1%, but a big upwards revision to the YoY rate of growth from 2.9% to 3.6%. Newswires are using this apparent GDP strength as justification for some tax increases at the forthcoming budget, and for the MAS to move to a tightening stance at the April meeting. While we don't disagree that the former policy change looks likely, these GDP figures require some fairly imaginative seasonal adjustment or some downward revision to historical data to work, and it is less clear to us that the economy has the momentum these revisions seem to claim. Certainly, recent data from Singapore has been quite mixed, and tighter monetary policy on top of tighter fiscal policy seems like it might be unnecessary against such a background.

4Q17 GDP from Malaysia is also due around noon. We also look for a slightly weaker figure from Malaysia, of 5.5%, slightly below the consensus 5.8% expectation.

The big release of the day, however, is CPI, not GDP. January US CPI inflation should fall from 1.9% to 1.7%, and the core rate of inflation is also expected to decline 0.1pp to 1.7%. This result is predicated on a reasonable 0.3%MoM gain in the CPI index, so it looks as if there is two-way risk around this figure too. With the market currently overly jittery about inflation and higher bond yields, we suspect that if 0.3%MoM remains a balanced outcome for CPI, the market response might be more excessive for an upside, rather than a downside miss.

0.5%

Japanese 4Q17 GDP

Down from 2.2%

Worse than expected

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