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Weekly Macro and Markets View

21 November 2022

Highlights and View

The latest economic indicators across North Asia disappoint

China's economy is likely to remain in the doldrums into Q1 next year, while exports across the region will continue to be hit by weaker, recession-driven Western demand.

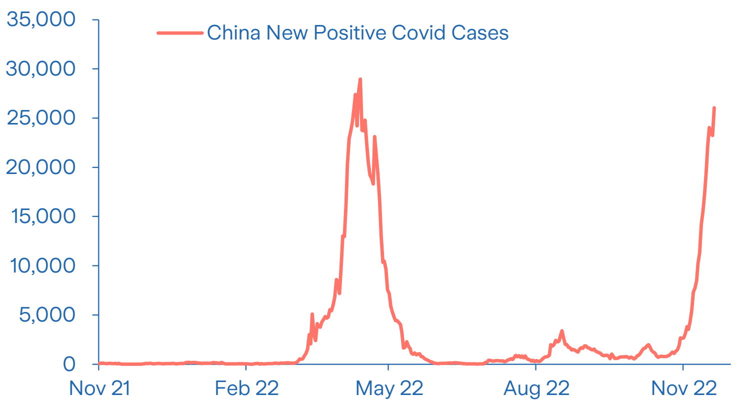
European banks repay EUR 300bn as the ECB tightened terms on its TLTRO loans

In order to shrink its balance sheet, the ECB has announced a reduction in incentives for banks to hold TLTRO loans. Consequently, more repayments are likely, which should free collateral and tighten swap spreads.

Credit spreads tighten sharply despite banks failing to place Tenneco's leveraged loan and junk bond deals

A failed debt placement indicates that investor's risk appetite is lower than High Yield market valuations suggest, and we remain cautious around extrapolating the recent rally in credit markets.

Covid and property remain China's weak spots



Source: China National Health Commission, Bloomberg

On the heels of the Communist Party Congress, China's economy continues to face heavy headwinds as domestic demand remains lacklustre due to the latest Covid wave and persisting property market problems. Cities with high-risk Covid areas account for more than half of China's GDP and include Beijing, Guangzhou, and Chongqing. The latest surge in Covid cases is close to exceeding the prior record high. Over the weekend three Covid-induced deaths were reported, hitting investor sentiment with 'H'-shares falling 2% today. We regard the timing of the latest 20-point plan to soften Covid control measures as inappropriate, even though a cautious re-opening after March 2023 would be welcome. This requires the booster vaccination rate among the elderly to accelerate. Meanwhile, the property sector continues to cause headaches. Sales contracts for the top 100 developers were still down 31% YoY in October, while new residential starts collapsed by 35% YoY. Land sales volume contracted 45% YoY in the first ten months of the year, while the average residential selling price per square meter is down 5%, with household buying intentions low amid the previous mantra of property being a store of wealth. We applaud the government's 16-point plan to reinvigorate the property market but believe the positive impact will become visible only later next year. Meanwhile, infrastructure investments continue to support the economy.

Japan

Slowing growth momentum while food inflation surges to a 41-year high

At a first glance, Japan's economic contraction by 1.2% on an annualised sequential basis was a negative surprise. However, digging a bit deeper, we note that growth in the prior quarter was revised up by 1.1 percentage points to 4.6%, and, more importantly, that major overseas advertising costs by Japanese companies were classified as imports in Q3, resulting in a negative net export contribution. Private consumption and capex growth remained decent but were weaker than in Q2 and compared to the brisk monthly indicators and surveys. We expect growth in the current quarter to remain solid, particularly as the recovery in inbound tourism after lifting Covid related restrictions saw a boost. However, we need to keep an eye on services consumption as new Omicron infections are rising again in what considered to be the eighth Covid wave in Japan. As for capex, the slump in September machinery orders is a warning sign. Meanwhile, headline inflation spiked to 3.7%, the highest in more than thirty years, due to rising food inflation.

US

Producer prices reflect fading price pressure

Similar to CPI figures the week before, the latest batch of PPI data came in below consensus expectations, confirming the decline in price pressure visible in a range of data. Headline producer price growth slowed from 8.4% in September to 8% YoY in October, the lowest since July 2021. Stock markets rallied briefly on the news but gave up their gains later in the week as a number of FOMC members pushed back against expectations of an imminent change in the Fed's hawkish stance. Further economic data were mixed but mostly pointed at weaker growth ahead. Retail sales were stronger than expected in October, reflecting a robust consumer sector. However, industrial production was slightly negative while the Philadelphia Fed Business Outlook fell further into negative territory in November, significantly worse than consensus expected. In another sign of a looming contraction, the Conference Board's index of leading indicators fell by 0.8% MoM in October, the lowest since 2009 excluding the pandemic-induced lockdown.

UK

Soaring inflation will keep up the pressure on the BoE

Inflation remains stubbornly high with headline CPI picking up from 10.1% in September to 11.1% YoY in October. Once again energy was the single largest upside driver of inflation as electricity and gas prices increased substantially. Core inflation was stable at 6.5% YoY although signs of an early Christmas shopping season pushed some components up. These inflation numbers will keep the pressure on the BoE to tighten its policy further while the latest batch of labour market data did not offer any relief. Although the unemployment rate ticked up to 3.6% in September from 3.5% the month before, wage growth (ex bonuses) still picked up slightly from 5.5% to 5.7% YoY. There was only a muted reaction to the Chancellor's Autumn Statement as it did not deliver any significant surprises. Tax increases will mostly hit wealthier households, which is unlikely to have a substantial impact on consumer spending. Lifting the energy price cap, however, will affect inflation rates and household spending next year while most announced spending cuts will only bite in the long term.

Australia

Strong employment data result in increasing wage growth

Australia's employment data for October were better than the market had expected, with total employment increasing by 32k vs. 15k, while the unemployment rate declined to 3.4%, the lowest since 1974. The strong labour market has started to have a positive impact on wages, with the wage price index increasing by 1% QoQ and 3.1% YoY in Q3, showing the fastest pace of wage growth since March 2013. The retail sector recorded the strongest growth as it has been the most impacted by labour shortages. Strong wage inflation highlights the view that the RBA may have reduced the pace of rate hikes too early when it increased the cash rate by only 25bps in October and November instead of 50bps. The recent inflation, wage, and employment surprises mean that the RBA will likely need to extend the current rate hike cycle into Q2 next year and that the terminal rate will be closer to 3.80%. Australia's equity market prices were little changed. Gains in October and November have been consolidated.

ASEAN

More rate hikes to curb inflation and protect currencies

Bank Indonesia (BI) raised its seven-day reserve repo rate by 50bps to 5.25%, emphasising rising inflation expectations and the need to maintain FX stability. In a similar move, Bangko Sentral ng Pilipinas (BSP) hiked its policy rate by 75bps to 5%, as it has concerns about a stronger pass-through of high food and energy prices to core inflation. While appearing relatively hawkish, both central banks are likely close to the end of their rate hike cycles and should soon switch their focus from price and FX stability to growth amid looming recessions in major economies earlier next year. Meanwhile, October exports for Indonesia, Malaysia, and Singapore pointed to weaker momentum given declining commodity prices and slowing global demand for electronic products. The slowdown was most evident in Singapore, with a 5.6% YoY contraction in non-oil exports. Although trending down, Malaysia's and Indonesia's figures remained decent, up by 15% and 12% YoY, respectively.

What to Watch

- Various economic data and business surveys are likely to further indicate that the Eurozone has entered recession in Q4.
- This week's PMI data will show whether growth slowed further in November.
- In APAC, we expect the Bank of Korea to hike its policy rate by another 25bps to 3.25%, even though two among the seven Monetary Policy Board members have a dovish tilt. The RBNZ is likely to hike by 75bps to 4.25%. Taiwan will report Q3 GDP and October data for industrial production, export orders and employment. Japan will release November CPI data for Tokyo. Australia will publish November PMI and October export data. Japan's markets will be closed on Wednesday due to Thanksgiving.

Disclaimer and cautionary statement

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