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Good Morning Asia

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Overnight

Markets

	Last	Previous	% Change
DJIA	11502.5	11412.9	0.79
NASDAQ	2382.5	2362.0	0.87
FTSE 100	5528.1	5470.7	1.05
Nikkei 225	12812.1	12753.0	0.46
Dated Brent	114.02	113.70	0.28
US 10Yr Yield	3.76	3.77	
USD 6m LIBOR	3.12	3.12	

Source: Bloomberg

Data

Cty	Event		Expected	Actual	Prior
US	MBA Mortgage Applications	AUG22	- -	0.5%	-1.5%
US	Durable Goods Orders	JUL	0.0%	1.3%	1.3%
US	Durables Ex Transportation	JUL	-0.7%	0.7%	2.4%
GE	Import Price Index (MoM)	JUL	0.5%	0.6%	1.5%
GE	Import Price Index (YoY)	JUL	9.2%	9.3%	8.9%
GE	CPI (MoM)	AUGP	-0.2%	-0.3%	0.6%
GE	CPI (YoY)	AUGP	3.2%	3.1%	3.3%
GE	CPI - EU Harmonized (MoM)	AUGP	-0.2%	-0.4%	0.7%
GE	CPI - EU Harmonized (YoY)	AUGP	3.4%	3.3%	3.5%

Source: Bloomberg

USA: Moral hazard at work? Critics argue policymakers went a step too far when they engineered a construction in which Bear Stearns was taken over by JPMorgan, with limited downside for the latter. Similar criticism surrounded policymakers' decision to make the government backing for the GSEs public very explicit. It's not clear whether policymakers had any viable other options at that stage, however, as they were reacting to an escalated situation. Negative market sentiment has a way of feeding upon itself. As we wrote earlier this week we see a reactive pattern in policymakers' reactions that is similar to for example the S&L crisis in the 1980s. Policymakers intervene to curb systemic risk in the financial sector only once a financial institution tumbles, i.e. there is no proactive policy in place. Similar to the S&L crisis we appear in the middle of a string of failures, which is likely to see the de facto nationalization of a number of financial institutions. The Bush Administration's approach is a reactive one, however, stepping in only after a failure and wiping out shareholders to curb the risk of moral hazard for the future.

But is the genie of moral hazard indeed still in the bottle? Top executives of some of the large US automakers allegedly are gearing up to lobby Washington for a loan package and there's even some ideas floating around the Fed could give them access to the discount window. Ahead of the US presidential elections it's certainly an opportune moment for these automakers to shift their burden onto US taxpayers. We can only hope lawmakers will be able to resist to court swing states with (more) favorable treatment for US automakers at the expense of taxpayers. The Fed's answer, should automakers pop the question, we don't doubt: there will be no access to the discount window for automakers. Automakers may still be looking for the Fed's approval of a loan package. Again the Fed should prove very reluctant. The best the automakers can hope for is for the Fed to state the decision's up to Congress. More likely Fed officials will heavily criticize any such plans, for fear of the Bear Stearns rescue setting a precedent.

Eurozone: German CPI posted a -0.4% month-on-month decline in August. That was a bigger pullback than the market median forecast of -0.2%. In year-on-year terms German inflation eased back to 3.3% from 3.5%, which compared favorably to the consensus forecast for an unchanged outcome. A breakdown by components isn't available yet for this preliminary release. Data at the states level, however, so far suggests lower energy inflation and to some extent lower food prices were the key drivers behind the lower inflation readings. The decline in energy prices should come as no surprise given the sharp correction in crude oil prices. We note 12 months ago energy prices pulled back as well, making the lower year-on-year reading all that more impressive. Apparently energy prices have come off really substantially – an indication lower oil prices are being passed on to end consumers rather quickly.

Naturally the ECB's not cheering just yet. Headline inflation remains well above the ECB's target of "close to but below 2%". Moreover there are some signs of a tick-up in core inflation, which in turn suggests pipeline price pressures and second-round effects remain issues to watch closely. Nevertheless with a global slowdown underway we expect inflation to trend lower from here and ultimately free the ECB's hands in 1H09 to moderately ease monetary policy.

Japan: Traditionally the last Friday of the month sees the release of a slew of data on the Japanese economy. Hence we have the manufacturing PMI, employment figures, household spending, CPI series, industrial production, retail sales, housing starts, construction orders and small business confidence all to look forward to tomorrow.

We already highlighted at the start of this week the CPI series is probably the most interesting one to watch. Inflation's expected to pick up further, with headline inflation expected to accelerate to 2.2% year-on-year from 2.0% and core inflation (ex fresh food) increasing to 2.3% year-on-year from 1.9%. The international style core inflation measure (ex fresh food and energy) is likely to remain subdued at around 0.1% year-on-year. Gas prices are driving the run-up in July prices, which in turn suggests there could be a reversal in August as the impact of a substantial correction in oil prices is being felt. Adding to the July acceleration is the lagged impact of a 30% government increase of wheat resale prices in April and an increase in public utility prices.

We'd also keep an eye on employment data. The jobless rate is expected to remain unchanged at 4.1%, but there are some modest upside risks. We look for the job-to-applicant ratio to worsen to 0.90 from 0.91. Clearly the Japanese labor market is under some pressure, but it's coming from a rather tight situation and we shouldn't jump to the conclusion the employment situation is all of a sudden bad. It remains a factor underpinning consumer spending going forward.

The manufacturing PMI and small business confidence are series that aren't watched nearly as closely as the quarterly Tankan. Yet they provide a timely update for business sentiment across the spectrum. The market's looking for a further pullback in these series, reflecting the near-term headwinds for the economy.

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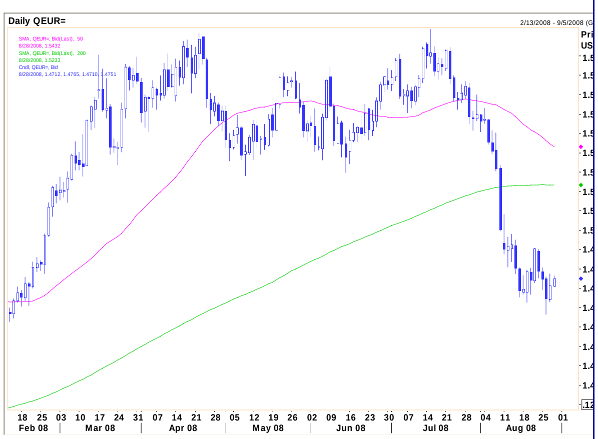
Asian data for release today

Time	Cty	Data	For	F/cast	Prior
21:00	SK	Business Survey - Mfg	SEP	79	74
21:00	SK	Business Survey - Non-Mfg	SEP	77	75
0:00	AU	Conference Board Leading Index	JUN	-0.5%a	-0.1%
1:30	AU	Private Capital Expenditure	2Q	2.0%	-2.5%
2:00	PH	GDP (YoY)	2Q	5.0%	5.2%
2:00	PH	GDP (sa, QoQ)	2Q	1.6%	0.8%
3:00	NZ	Money Supply M3 (YoY)	JUL	- -	7.4%
3:00	SK	External Short-Term Debt	2Q	- -	$176.5B
	PH	BSP Rate Decision	AUG28	6.00%	5.75%
8:15	HK	Trade Balance	JUL	- -	-HK24

Source: Bloomberg, Reuters

Chart 1: EUR/USD



Source: Reuters

Chart 2: USD/JPY

Source: Reuters