

Asia Morning Bites

Japan, China, and India release inflation data for May today ahead of the US CPI and FOMC meeting. South Korea's labour data remains solid



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Global Macro and Markets

- Global markets: This time tomorrow, we will be digesting the latest US CPI numbers, and the FOMC statement and comments. And after rising for several days, Treasury yields dipped slightly yesterday ahead of those key events. 2Y yields fell 4.6 basis points. Yields on 10Y US Treasuries fell 6.3bp and are back down to 4.404%. FX markets have not registered the decline in yields, and EURUSD is slightly lower at 1.0740, though that may also register some unease at political events unfolding in the Eurozone. The AUD is almost unchanged from yesterday, though the bias was towards further weakness during most of the last 24 hours. Cable is slightly stronger thanks to strong wage data, but the JPY has softened a touch ahead of Friday's BoJ meeting. Other Asian FX hasn't done much over the last session but is mostly a little softer vs the USD. US stocks were a little more upbeat yesterday. But Chinese stocks had a tough day. The Hang Seng dropped more than a per cent and the CSI 300 fell 0.87%.
- G-7 macro: UK average weekly earnings remained stronger than expected in April, remaining at 5.9% YoY after some upward revisions to the March figures. That will put some doubt into the market's mind about summer rate cuts from the Bank of England. The UK also releases April production and trade figures today. There was also a stronger headline

reading from the NFIB survey of small businesses in the US. This is a good bellwether for the broader economy, so pushes back slightly at some of the recent softer activity numbers. Attention shifts back to the US later, as the May CPI numbers are released ahead of the FOMC meeting. The headline figure is anticipated to rise only 0.1% MoM, but that would still leave inflation at 3.4% YoY. Core inflation could ease slightly lower from 3.6% YoY to 3.5% on a 0.3% MoM result. But this would still leave the trend core inflation run-rate higher than the Fed needs to get inflation back to target. As for the FOMC, the dot plot diagram may be the main focus of the market tonight. The choice for the FOMC members is now 2 or just one rate cut this year. A shift to just one could be the main market-moving event for the day.

- Japan: Producer prices rose by a more-than-expected 2.4% in May (vs revised 1.1% in April, 2.0% market consensus), showing that underlying inflationary pressures continue to accelerate. Utilities fell by 7.4% but at a much slower pace than in the previous month's 19.6% decline. Also, commodity prices – petroleum, nonferrous metals, agriculture – rose notably, partly due to the weak JPY as these items are mostly imported. The Bank of Japan is expected to keep rates unchanged at its Friday meeting, but the latest inflation trend supports our view that the BoJ is likely to respond with a rate hike as early as July, sooner than the market believes.
- China: May CPI and PPI inflation data will be published today. We are looking for CPI inflation to remain unchanged at 0.3% YoY. High-frequency data showed that food inflation will likely continue to drag inflation, but the extent of the drag could be smaller amid some stabilisation in pork prices. Non-food inflation remains the question mark for this month's release, where auto prices and clothing prices have dragged inflation in previous months but May's release could benefit from a more favourable base effect. Risks are slightly balanced to the upside for this release.
- India: We don't expect any substantial change in India's May inflation rate from the 4.83% YoY reading for April. Food prices seem fairly stable this month, and most of the other non-food components tend to be very stable.
- South Korea: The unemployment rate remained at 2.8% in May for a third month, but it is worrying to see that key sectors – manufacturing (-36k), construction (-66k), wholesale/retail trade (-18k) – shed jobs quite significantly. Construction and whole/retail trade jobs have now fallen for more than three consecutive months, suggesting a sluggish domestic economy.

What to look out for : US Inflation and FOMC decision

- Japan PPI (12 June)
- South Korea unemployment (12 June)
- China CPI and PPI (12 June)
- India trade and CPI inflation (12 June)
- Thailand BoT policy (12 June)
- US CPI inflation (12 June)
- US FOMC decision (13 June)
- Australia unemployment (13 June)

- Taiwan CBC policy (13 June)
- US initial jobless claims and PPI (13 June)
- Japan industrial production (14 June)
- US Univ of Michigan (14 June)

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