

## Asia Morning Bites

Weaker spending data in the US increases market recession fears,  
Mixed signals from Japan's Tankan, Indonesia inflation



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### Macro outlook

- **Global markets:** Stocks ended the first half of 2022 on a sour note, though it could have been worse. The S&P500 opened sharply weaker and then fell more before recovering almost all its lost ground, and then once again lost confidence and slid into the close to end down 0.88%. The NASDAQ dropped further, ending 1.33% down on the day. This leaves the S&P500 back in bear-market territory – down 20.58%ytd, and the NASDAQ down 29.51%ytd. Once again, equity futures are essentially flat, so there is little guidance for Asian trading this morning. The EURUSD has managed to lift itself from sub-1.04 levels yesterday and is currently trading at about 1.0472. The AUD is likewise marginally stronger, ahead of next week's RBA meeting, where we expect Governor Lowe and colleagues to deliver a 50bp rate hike. Cable has likewise made some small gains rising to 1.2159, so too has the JPY, which is back below 136 this morning. Asian FX has been fairly quiet in the last 24 hours, though the THB continues to struggle. At the other end of the spectrum KRW gains basically reflect a partial unwinding of weakness earlier in the week, bringing it back from the 1300 level to 1290 currently. Bond yields continue to fall. 2Y US Treasury yields are down 6.7bp taking them to 2.972%, The 10Y yield has dropped even more, falling 7.3bp to 3.018%. We could be knocking on sub-3% by the end of today if markets remain anxious

going into the weekend.

- **G-7 Macro:** US personal incomes and spending figures for May were in line with expectations yesterday. Incomes rose 0.5%MoM, but spending rose only 0.2%MoM, and in real terms, was down 0.4%MoM given a 0.6%MoM rise in the PCE deflator. Downward revisions to previous months mean that overall, the report was considerably weaker than had been expected. Today, we have already had Japan's quarterly Tankan survey, which at a headline level, was split by firm size and sector, with smaller firms and non-manufacturing firms doing better than large manufacturing firms. The headline index for large manufacturers was 9, down from 14, and worse than the 13 index that had been expected. Eurozone preliminary inflation data for June is expected to show an increase from 7.3% to 7.9%, which might encourage the ECB hawks to squawk louder in the face of the pedestrian pace of implied tightening from the region's central bank. The US data release schedule is centred on the manufacturing ISM index. Prices paid and employment subindices will be worth a look.
- **India:** India's May deficit released yesterday came in at INR129075 crore (10 million), this was up from the INR 74,846 crore April figure, and importantly well up from the INR 44,475 crore deficit for May 2021 (these data are very seasonal, so the year-ago comparison is probably the most meaningful). India's government is targeting a 6.4% (GDP) deficit this year. While we still think this is eminently achievable, these figures highlight the pressure on government finances stemming from high global commodities and in particular energy prices.
- **Regional:** Regional PMI reports are set for release this morning, which could take their queue from the China release yesterday. China's manufacturing index slipped below expectations but the services sector outperformed as parts of the economy reopened.
- **Indonesia:** Indonesia's headline inflation is due for release today with market participants expecting prices to rise 4.2%. All eyes will be on core inflation as it will be a key decision variable for a BI rate hike timing.

## What to look out for: Regional PMI readings

- Japan Tokyo CPI inflation, Tankan survey and job applicant ratio (1 July)
- South Korea trade balance (1 July)
- Regional PMI manufacturing (1 July)
- Indonesia CPI inflation (1 July)

- US ISM manufacturing (1 July)

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