

Asia Morning Bites

Japan's manufacturing Tankan improved; Korean exports gained for a ninth straight month; Watch out for regional PMIs



Asia Morning Bites

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Global Macro and Markets

- **Global Markets:** Welcome to the first day of the second half of 2024. The lack of downside surprises from Friday's PCE data may have been enough to push US Treasury yields higher. Most of the movement came at the back end of the yield curve. 10Y yields rose 11bp to 4.396% compared to just a 4.2bp increase for 2Y yields. That hasn't supported the USD, and EURUSD has risen to 1.0738. The AUD has also risen and is now 0.6678. Cable is little changed at 1.2649, and the JPY is not much different at 160.81. Most of the Asian FX pack made gains on Friday, led by the KRW and the THB. The CNY had a choppy day on Friday, dropping to 7.2623 before rising to 7.2673. Equities sold off on Friday. The S&P 500 fell 0.41% and the NASDAQ fell 0.71%. Chinese stocks were fairly flat. The CSI 300 gained just 0.22%.
- **G-7 Macro:** Core PCE inflation for May rose 0.1% MoM, as forecast, and the rest of the release was in line with expectations too. There were, however, some small upward revisions to the April numbers. Nevertheless, our US economist still thinks there is a chance of 75bp of rate cuts this year, [though subject to a number of conditions, so this is far from a done deal.](#)
- Today is fairly quiet, but we do get the manufacturing ISM index, which is always one of the

first releases in a non-farm-payrolls week (that is out on Friday as always). We also have some preliminary German inflation numbers for June.

- It's also a busy week for G-7 Central bankers – well, busyish, as they head to Portugal for their annual get-together at Sintra – [here is James Smith's take on that meeting](#). And there is plenty on the European political calendar this week. The UK goes to the polls on 4 July. And we get [the second round of the French parliamentary elections too](#).
 - **Asia Pacific:** We get manufacturing PMI data across the region this morning. Most of the region's indices maintain a message of modest growth, and we expect that to continue.
 - **Japan:** The 2Q24 Tankan survey showed that manufacturing confidence improved more than expected, probably due to the normalisation of automobile production. The current (13 vs 11 market consensus) and outlook (14 vs 11 market consensus) indices beat the market consensus. However, the service sector Tankan was a bit disappointing. The outlook for the service sector (27 vs 28 market consensus) remained unchanged while the current index (33 vs 33 market consensus) edged down from the previous quarter (34). All industry capex (11.1%) missed the market consensus (13.9%) but improved smartly from the previous quarter (4.0%). Although the Services Tankan was weaker than expected, we still believe that the services sector will continue to lead overall growth. However, the recovery in manufacturing and capital expenditure is likely to boost economic growth this quarter and next.
- China:** The National Bureau of Statistics released the June official PMI data on Sunday, which showed the manufacturing PMI unchanged at 49.5, remaining in contraction for the second consecutive month, and coming in a little weaker than we were expecting. There was little change in terms of subcategory performance, but most generally trended incrementally lower. Production remained in expansion but new orders and employment continued to contract. The non-manufacturing PMI also disappointed, falling to a 6-month low of 50.5, with new orders and export orders also in contraction.
- The Caixin manufacturing PMI release follows today, where markets are looking for a slight pullback to 51.5 from last month's 51.7.
 - **Taiwan:** Taiwan also releases its June S&P Manufacturing PMI result today. After a 22-month streak of contraction, Taiwan's manufacturing PMI has been above 50 for the last two months, and we expect this positive momentum to continue for a third consecutive month amid the recent strength of industrial production and solid export orders growth.
 - **South Korea:** June export growth moderated to 5.1% YoY (vs 11.5% in May, 4.4% market consensus) largely due to unfavourable calendar effects. Average daily exports increased solidly by 12.4% YoY in June. No details have been released yet, but we believe that strong chip exports should be the main reason for the growth. Meanwhile, imports dropped more than expected by 7.5% YoY in June (vs -2.0% in May, -4.7% market consensus) probably due to falling commodity prices and sluggish domestic demand. The trade surplus widened to USD 7.9 billion from USD 4.8 billion in May. Exports will continue to lead overall growth in the current quarter but a larger decline in imports raises concerns about domestic growth.

- **Indonesia:** Inflation for June comes out at 12.00 SGT/HKT. Another weak figure should keep inflation at about 2.8% (consensus 2.7%) and the core rate should remain below 2% (consensus 1.94%). Upside disappointment could weigh on the IDR.

What to look out for : Japan Tankan, Korea Trade, and Regional Mfg PMIs

July 1st

- Japan: 2Q Tankan large Mfg index, June Jibun bank Mfg PMI
- S Korea: June Trade balance, June Mfg PMI
- Indonesia: June Mfg MPI index, June CPI
- Taiwan: June Mfg PMI
- Philippines: June Mfg PMI
- China: June Caixin Mfg PMI
- India: June Mfg MPI
- Australia: May retail sales
- Germany: June Preliminary CPI
- US: June Mfg ISM index

July 2nd

- S Korea: June CPI
- Australia: June RBA meeting minutes
- Eurozone: Preliminary June CPI
- Singapore: June PMI index
- US: May JOLTS job openings

July 3rd

- Australia: June Judo Bank Services PMI
- Japan: June Services PMI
- Australia: May building approvals
- China: June Caixin service sector PMI
- India: June Service sector PMI
- US: June ADP employment change, May trade balance, Weekly jobless claims, June service sector PMI index, June ISM service sector index, FOMC minutes

July 4th

- Australia: May Trade balance
- Germany: May Factory orders

July 5th

- S Korea: May Current account balance
- Japan: May Household spending
- Philippines: June CPI

- Thailand: June CPI
- Singapore: May retail sales
- Germany: May industrial production
- Taiwan: June CPI
- Eurozone: May retail sales
- US: June non-farm payrolls, June unemployment rate, June average hourly earnings

Author

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

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