Asia Morning Bites

Higher inflation and rising bond yields could help snuff out the recent risk-on rally.

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Macro Outlook

- **Global**: In the daily tug of war between asset classes and FX, it feels like the bond market is currently in the driving seat, though of course, that can change on a daily basis. While yields were higher across the US Treasury curve yesterday, we should perhaps focus on the Eurozone yield curve, where 10Y yields were up between 5-9bp. It's worth remarking that only 3 months ago, 3m German 10Y Bund yields were about 110-120bp lower, and hovering around zero. We've moved a very long way since then. The probable driver for the latest move in yields was the upside miss on the Eurozone inflation rate reading for May, which came in at 8.1%YoY, above the 7.8% expected (7.5% in April). Our European economists add more colour here. The US stock market was a touch weaker yesterday, though volumes were again thin, and there doesn't seem to be much conviction at the moment. Asian equity futures are more mixed than outright negative today. And in currency space, moves generally mirrored what has been happening in the equity market, with the EURUSD, and AUD edging lower again. In Asia, the THB was the main underperformer, following weak trade data yesterday.

- **India**: 1Q GDP of 4.1%YoY was broadly in line with the market consensus of 3.9% (INGf 4.0%). The GDP print means we don't have to amend our full-year 7.2% forecast. Private consumption was the main drag on growth, and won't be being helped by the impact of higher prices on purchasing power. The GDP reading is no obstacle to the RBI stepping up the pace of its tightening later this month. A 50bp hike is looking possible.

- **South Korea**: Slightly stronger than expected May exports (21.3%YoY) helped offset the impact of the continued strength of imports (32%YoY) and led to a slight contraction in the trade deficit. That now stands at -USD1705m (April was -USD2508m), though the KRW has opened slightly softer in early trading despite this supportive release.

- **Australia**: 1Q22 GDP out later this morning is quite a wild card following the 3.4% QoQ outcome in 4Q21. The consensus ranges between 0.2%QoQ and 2.0%QoQ, though the median is 0.7%QoQ and the mode 0.6%QoQ. We'll know by 0930 SGT. In any event, 1Q22 GDP is quite historical now and probably won't have much bearing on RBA rate hike expectations.

- **China**: We expect Caixin's manufacturing PMI will come in lower than the official manufacturing PMI of 49.6 released yesterday as the survey targets smaller entities. These smaller firms are facing more difficulties relating to logistics and therefore will probably get fewer new orders compared to larger manufacturers.

- **Taiwan**: Taiwan's manufacturing PMI should fall to close to 50.0 as Taiwan's export order data showed a drop in orders due to weaker demand for consumer electronics in Mainland China.

What to look out for: US non-farm payrolls

- South Korea trade (1 June)
- Regional PMI manufacturing (1 June)
- Australia 1Q GDP (1 June)
- US ISM manufacturing (1 June)
- Indonesia CPI inflation (2 June)
- Australia trade balance (2 June)
- US ADP jobs, initial jobless claims, durable goods orders (2 June)
- South Korea CPI inflation (3 June)
- US non-farm payrolls and ISM services (3 June)

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