

Asia Morning Bites

Head for cover. Market sentiment remains negative amidst stagflation fears.



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Macro outlook

- **Global:** The Mayday parade in Russia came and went and nothing much materialised. News stories on this are mainly running with the theme that there was some more moderate language expressed regarding the West. But rather than signalling an imminent end to the conflict, Putin's speech seems to indicate that it will continue. And maybe that's what has led to such a downbeat mood from markets. Talk of recession is getting louder, and US equity markets had another awful day, with the NASDAQ dropping 4.3%, and the S&P500 down 3.2%. Asian equities will open lower today, and there doesn't seem much on the calendar to brighten things up. The Fed's Bostic was on record yesterday saying that he didn't see much need for moves greater than 75bp, which may have been designed to appease panicking markets. If so, it didn't work. G-10 FX was a bit more mixed. EURUSD managed to claw its way back up to about 105.60, and the JPY pulled back from 131.30 back to the low 130s. Other Asian FX is all under weakening pressure and that will likely continue today, though it's possible that we see some intervention at these levels adding noise to the sell-off. "Risk-off" was clearly evident in bond markets, where yields on 2Y US Treasuries fell by 13.7bp, while the yield on 10Y USTs fell 9bp, though still leaving yields at more than 3%. Commodities were also in the firing line for risk sentiment, and front-month

Brent futures fell to \$105/bbl despite indications that some progress with Hungary was being made on the EU proposal to ban Russian oil imports.

It's a thin day for macro today: In Germany, the ZEW survey is released. Last month the expectations reading fell to levels which basically say "recession", and it is doubtful that this picture will have changed. In the US, another survey, the NFIB survey of small firms, may shed additional light on inflation pressures in the US economy, with their price and wage expectations series. Not a big market-moving release, however.

- **Korea:** The March balance of payments report showed Korea's current account surplus narrowing to \$6.73 billion in March, down from the previous year (\$7.5 billion). Merchandise exports rose solidly (+16.9%YoY) but higher energy prices pushed up imports even more strongly (+25.1%YoY). The service account recorded a surplus for the second month, mainly benefitting from an improved transportation balance. What stands out in the capital and financial account is that direct investment assets increased sharply relating to semiconductor companies' equity acquisitions of foreign companies.
- **Philippines:** Ferdinand Marcos Jr., son of the former dictator, is set to win the Presidential Election held on Monday. Although little is known about his platform, Philippine markets may face a sell-off today based on a Bloomberg survey showing that he was the least favoured candidate by the investor community. Among other campaign promises, Marcos has vowed to subsidize food and fuel items, which will adversely affect the country's fiscal sustainability goals. The PHP is likely to come under selling pressure today as foreign funds exit.
- **Indonesia: (released yesterday)** Inflation in April heated up to 3.5%YoY (from 2.6%YoY in March), faster than market expectations due to the rise in commodity prices. Meanwhile, 1Q GDP was in-line with expectations at 5% even after a Covid surge experienced in February. We can expect the trend of accelerating inflation and robust growth to continue in 2Q with Bank Indonesia gauging the right timing for a potential policy normalization before the end of the quarter. We expect a rate hike at the 23 June meeting.

What to look out for: China and US inflation

- Korea BoP goods balance (10 May)
- Australia business confidence (10 May)
- Malaysia industrial production (10 May)
- Korea unemployment (11 May)
- China CPI and PPI inflation (11 May)

- US CPI inflation (11 May)
- Philippines 1Q GDP (12 May)
- US PPI inflation and initial jobless claims (12 May)
- Malaysia GDP (13 May)
- Hong Kong GDP (13 May)
- US Michigan sentiment (13 May)

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