

Asia Morning Bites

Eyes on the inflation numbers as debt ceiling talks fail to make progress



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Global Macro and Markets

- **Global markets:** US stocks opened lower on Tuesday and stayed low. The S&P 500 fell 0.46% while the NASDAQ dropped 0.63%. Chinese stocks were also back in the red. The CSI 300 was down 0.86% and the Hang Seng Index fell a whopping 2.12%. Anxiety may be building ahead of today's inflation figures out of the US, where progress lower is likely to be limited, non-existent or even possibly go into reverse. This should be a short-lived hiatus, but markets are impatient. US Treasury yields have slowed their ascent. The yield on the 2Y note rose only 2.1bp yesterday, rising to 4.022%. 10Y Treasury yields rose just 1.1bp to 3.519%. US CDS, which we are watching at the moment in relation to the debt ceiling tensions, nudged a little higher again yesterday. The 5Y CDS is now 74.63bp. EURUSD eased lower again yesterday to 1.0968, as has the AUD, which has fallen to 0.6765. Cable was flat yesterday at 1.2628, but the JPY has moved erratically higher to 135.21. Most of the Asia FX pack was a little weaker yesterday. The PHP was at the bottom of the heap, losing 0.89% after disappointing trade figures. The THB was at the opposite end of the spectrum, making small gains ahead of the May 14 elections.
- **G-7 macro:** Nothing came of talks between President Biden and Congressional Republicans yesterday, though they did pledge to hold more talks at averting a debt crisis. The US April

NFIB business survey of small and mid-sized firms fell more than had been forecast. Today, we get US CPI, and the market expectation is for no decline in the headline rate of 5.0%YoY after a 0.4%MoM increase in the price level, while the core inflation rate is expected to fall only 0.1pp to 5.5%YoY. The rate of decline will pick up again in the following two months, but markets will focus on the near-term facts rather than medium-term probabilities.

- **China:** The PBoC will release loan data between the 10th (today) and the 15th of May. There should be no jump in loan growth in April after the big jump in 1Q23, which is usually the season for Chinese banks to book loans for the rest of the year. If loan growth comes in higher than the consensus of CNY1400 bn in April, then this will probably mean that the PBoC is still pumping liquidity into the market for banks to grow loans for 2Q23. This is not our base case but it is possible given that the external sector is slowing while the domestic economy is recovering. Stronger loan growth may be able to help push the domestic economic recovery faster to balance the fall in the external sector.
- **South Korea:** The jobless rate unexpectedly fell to 2.6% in April (vs 2.7% in March, 2.9% market consensus). The labour market appears to be holding up relatively well despite sluggish growth conditions. Manufacturing (-16K) and construction (-10K) shed jobs as expected. But the gain from the service sector - whole/retail sales (+10K), transportation (+12K), and leisure (+7K) remained solid. We don't think overall labour conditions improved as much as these headline figures suggest. The decline in the jobless rate was partially due to a larger decline in the labour force. And the job gains were also more concentrated in low-skilled/low-wage industries. By age, the unemployment rate of the young labour force was the highest, for ages 20-29 (5.5%) and ages 30-39 (2.7%). We think the fact that the job market remains solid will allow the Bank of Korea to maintain its current hawkish stance.
- The current account balance posted a small gain of 237.9 million USD in March after two months of deficit. The CA balance is expected to turn negative again in April due to dividend payments. We think the weak CA condition during the early part of this year may be one of the main reasons for the weak KRW. However, the CA is expected to improve gradually from May, thus it would at least support the top of the KRW and not be too weak.

What to look out for: US inflation report

- US CPI and core CPI inflation (10 May)
- Japan trade balance (11 May)
- China CPI inflation (11 May)
- Philippines GDP (11 May)
- US initial jobless claims and PPI inflation (11 May)
- Hong Kong GDP (12 May)
- India CPI inflation (12 May)
- US University of Michigan sentiment (12 May)

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