

Asia Morning Bites

Asia markets likely in for a rough start on Thursday in reaction to expectations for a Fed rate cut to be pushed back. In terms of data, China reports both CPI and PPI inflation while the Philippines releases their latest trade figures



Asia Morning Bites

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Global Macro and Markets

- **Global Markets:** The tag team of a higher-than-expected US inflation report and the Fed minutes all but forced back expectations for the timing of the first Fed rate reduction. US March inflation blew hotter than analysts had expected across the core and headline measures. James Knightley writes that [September may be the earliest chance](#) for a potential easing from the Fed. The minutes of the most recent Fed meeting showed lengthy discussions among FOMC members about the persistence of inflation although most still believed that they needed to see more convincing signs that inflation was headed back towards target. So it looks like the Fed's much anticipated rate cut could be delayed further. In reaction to this, stock indices dropped and yields rose. The Dow Jones dropped 1.09% while the S&P and NASDAQ edged lower by 0.95% and 0.84%. Meanwhile, bond yields jumped higher on the prospects of the Fed delay with 10-year yields surging 18bp and the 2-year yield up a eye-catching 23bp. Most of the Asian FX pack was on the backfoot ahead of the US inflation report and we could see more of the same later today.
- **G-7 Macro:** Later in the day, the ECB meets to decide on policy with market consensus all

but locked in on a pause. Here is the [link to our team's cheat sheet](#) for the ECB meeting. In the US, on the heels of the CPI report we get the PPI report which could see yet another surprise with global energy costs on the rise all the more due to brewing geopolitical tension in the Middle East. In terms of Fed speak, Fed officials Williams and Barkin have separate speaking engagements later on Thursday. In Asia, China meets to report their latest CPI and PPI inflation while the Philippines releases latest trade figures.

- **China:** China publishes its inflation data this morning, where we're expecting inflation to moderate slightly from February's 0.7% YoY to 0.4% YoY, which should be largely driven by a pullback in food prices. We anticipate inflation remaining relatively low in 2Q24, before trending higher in the second half of the year; inflation is not likely to be a major consideration for monetary policy in the near-term, as it is RMB stability rather than potential concerns on inflation which is holding back monetary easing.
- **Japan:** We expect the BoJ to normalise monetary policy as early as July. In our view, the conditions for a BoJ hike are likely to be in place by then. We expect inflation to remain above 2%, household consumption and capital investment to improve, and real cash earnings to turn positive. The window for normalisation will be open for a limited time, and the BoJ will not miss the opportunity if official data confirms the BoJ's view. So [we expect the Bank to raise its policy rate target to a range of 0.15-0.25% in July and 0.40-0.50% in October](#), followed by two more 25bp hikes in the first half of next year. We have revised our JPY outlook as well. Now we see the JPY move to 150 (2Q24), 143 (3Q24) and 138 (4Q24).
- **South Korea:** The 22nd legislative election ended in a landslide victory for the Democratic Party (DP) and its associated parties, but as expected, it was a very close race at the same time. There were more than 10 districts that were decided by less than three percentage points, and there were several districts where the exit polls' projections differed from the actual results. The results showed that the pan-opposition won more than 180 seats out of 300 seats while People Power Party and associated party won 108 seats, so the current ruling coalition is likely to continue. While the election itself may be of great political significance, as we argued in our [last report](#), its impact on economic policy is likely to be limited. President Yoon Seok Yeol's policy agenda should be negotiated with the opposition, thus his leadership could be weakened in the last three years of his term. For fiscal policy, we expect to see a shift in the use of spending, with a slight expansion in welfare spending. For monetary policy, the current macroeconomic situation is likely to be the main determinant rather than the outcome of the election. Both parties are concerned of high inflation, we believe that the government's efforts to curb inflation to strengthen.
- **Philippines:** The February trade report is set for release today. Market consensus points to modest growth for imports (3.5% YoY) and a decent rise of roughly 10% YoY for exports, likely due to gain for the mainstay electronics subsector. On balance, we expect the trade deficit to remain substantial and close to -\$4bn. This implies the current account should remain in deficit, which would mean the PHP should face depreciation pressure in the near term.

What to look out for: China CPI and Philippine trade

- Philippines trade (11 April)
- China CPI and PPI inflation (11 April)
- US PPI inflation and initial jobless claims (11 April)
- Philippines bank lending (11 April)
- ECB policy meeting (11 April)

- South Korea unemployment (12 April)
- Japan industrial production (12 April)
- Singapore MAS and GDP (12 April)
- BoK meeting (12 April)
- China trade (12 April)
- India CPI inflation (12 April)
- US University of Michigan sentiment (12 April)

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