

Asia Morning Bites

Bank of Korea rates meeting could show some dissent. Japan's machine orders disappoint again



Asia Morning Bites

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Global Macro and Markets

- **Global Markets:** It was another quiet day for US Treasury markets, with the 2Y and 10Y yields down, but only fractionally. 10Y US Treasury yields are now 4.284%. That lack of action in Treasury markets wasn't reflected in currencies, and EURUSD made small gains up to 1.0834 and there were gains in most of the G-10 currencies, except for the JPY. USDJPY has moved up to 161.61 over the last 24 hours. Asian FX was mixed. At the top end of the pack, the PHP continues to improve and has dropped to 58.340. At the other end, the TWD is weaker, and USDCNY has moved higher again, rising to 7.2760. US equities were stronger. The NASDAQ and S&P 500 both gained more than a per cent yesterday. Chinese stocks were down slightly yesterday. The Hang Seng and CSI 300 both dropped around 0.3%.
- **G-7 Macro:** There was nothing much on the calendar yesterday, but this changes today when the US releases its June CPI numbers. The focus will be on the core CPI figure, and will then be translated into what this means for the later core PCE inflation numbers and for Fed policy. The Consensus expects the core PCE index to rise 0.2% MoM, and that should leave the core CPI inflation rate unchanged at 3.4% YoY. There isn't much chance of a "rounding miss" in the event of a "low 0.2" (to multiple decimal places) or a high 0.2, so we think 3.4% looks a safe bet unless we miss 0.2 altogether in either direction. The headline

figure is expected to rise only 0.1pp from last month, which would take the inflation rate down to 3.1% from 3.3%. There is a little bit more of a chance of an upside rounding miss on these figures assuming the consensus is right to 1 decimal place. Elsewhere, Fed Chair Powell gave the second reading of his set-piece speech to the House of Representatives yesterday but didn't add much, stopping short of signalling that he is convinced that inflation has yet made sufficient progress to enable rate cuts.

- **Japan:** Core machinery orders unexpectedly fell sharply again in May, dampening expectations for a recovery in Japanese investment in Q2/Q3. Core machinery orders data dropped -3.2% MoM sa in May (vs -2.9% in April, 0.8% market consensus). With such a volatile indicator on a monthly basis, the three-month comparison is more important, and fortunately, the three-month comparison remains in an expansionary phase, rising 4.2% 3Mo3M sa in May (vs 8.2% in April). We still expect a rebound in investment in 2Q24 GDP, but the recovery will be smaller than we had expected.
- **South Korea:** The Bank of Korea meets today. The consensus is that the Bank of Korea will keep interest rates unchanged. However, the market focus will be on whether there will be a minor vote and whether there will be a change in the forward guidance in three months' time. We think a minor vote is likely, but it doesn't guarantee a rate cut in August. The market is split on the timing of the first cut between August and October, and we are leaning towards an October cut rather than an August cut for now. Inflation has been on a downward trend in recent months, but the prices of city gas and some public service prices are set to rise in 3Q24. Moreover, inflation expectations remain at 3.0%. As a result, the BoK may still want more time to assess confidence in achieving their 2% target. Despite the scheduled price hikes, inflation is expected to ease to the sub 2% level from August mostly due to base effects. We should carefully listen to Governor Ree Chang Yong's comments on inflation and financial market conditions.

In a separate report, Korea's exports for first 10 days in July jumped 33.8% YoY and working day adjusted daily average exports rose 10.2%. Chip, car, and oil product exports rose sharply by 85.7%, 9.8%, and 40.5% respectively. Together with other NE Asian countries' solid tech export data, we believe the strong chip cycle will continue to boost exports for a while.

What to look out for : BoK decision, Japan's core machinery orders, and US CPI

July 11th

- Australia: June CBA Household Spending
- Japan: May Core Machine Orders
- UK: May GDP
- S Korea: BOK Base rate
- China: FDI (Due by July 18th)
- US: Weekly Jobless Claims, real average hourly earnings, June CPI, June Core CPI

July 12th

- India: June CPI, June Industrial Production
- US: June Final Demand PPI, Core Final Demand PPI, U. of Mich. Sentiment

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