

Asia Morning Bites

Higher than expected inflation stokes recession fears



Asia Morning Bites

Source: shutterstock

Macro outlook

- **Global:** Equities resumed their plunge yesterday as higher than expected US inflation dampened hopes of a soft landing. The NASDAQ is now down more than 27% year-to-date. The April US CPI figures came in at 8.3%, a slight decline from 8.5%YoY in March, but higher than had been expected (8.1%YoY consensus). More detail on the figures is available in JK's note overnight, [please click on this link](#). JK's main theme is that inflation in the US will not fall quickly, and we are forecasting 6% inflation for 4Q2022 ([see our forecast pages on "Think"](#)). That suggests the Fed will remain in aggressive hiking mode for much of the remainder of the year, and while this is the case, fear of recession will remain elevated. We are seeing this play out in the US Treasury market, where 2Y UST yields edged higher on the inflation figures, but 10Y US Treasury yields dropped a further 7bp to 2.92%, well below recent highs. Benchmark currencies are not doing too much – EURUSD is a little lower at 1.0513 from about 1.0530 yesterday. The AUD had a go at pushing above 0.70, but came crashing back below to sit at 0.6930. It wouldn't be surprising if the AUD had another go higher today, but if it keeps failing, the easier move may be down, not up. USDJPY is now back below 130, and the 10Y JGB yield is also a bit lower at 0.242% down from 0.248%, which looks like the new intraday ceiling.

In G-10 Macro space, there is a very heavy calendar for UK data today, including 1Q GDP, industrial production, construction and trade data. The US releases PPI data – that is unlikely to stir markets much further after the CPI release.

- **India:** At 10pm SGT, we will get the Indian CPI data for April. The March inflation rate of 6.95%YoY was the last straw that caused the unscheduled 40bp rate hike from the RBI this month, and inflation is likely to rise to 7.4%YoY in April, with food continuing to pressure prices higher as well as energy prices, now that state-owned oil companies have been passing through rising crude costs. More and perhaps speedier rate tightening will follow from the RBI, possibly as soon as June.
- **China:** We expect April loan data to be released today, and we look for it to come in around half the volume of March. This fall is mainly due to the Covid lockdown in Shanghai, which has slowed loan processing due to delayed logistics and also weakened loan demand. This weaker loan environment could remain the case for some months to come. Even though regular government meetings suggest reducing financing costs to boost the economy, banks are currently risk-averse, and lower interest rates may not help to create new loans. Lower interest rates could help existing borrowers, however. The regular government meeting also proposes using REITS to leveraging on existing infrastructure to get funding for new infrastructure projects. Another proposal is to subsidise new energy as well as increase the supply of coal to avoid electricity stoppages. The message is clear – economic growth is the top priority, though this goal has to be pursued without any relaxation on Covid measures for now.
- **Philippines:** 1Q GDP is slated for release today. The market consensus has GDP growing at 6.8% as economic activity bounced back quickly after Covid restrictions were relaxed in February. We believe growth above 6%, coupled with above-target inflation could convince the central bank (BSP) to finally hike policy rates at the 19 May meeting. Pressure on BSP to hike continues to build as other regional central banks have already tightened policy rates this year.

What to look out for: US initial jobless claims

- 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)

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.