

## Asia Morning Bites

Will the real CPI please step forward...



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### Macro Outlook

- **Global Markets:** Compared to recent standards, yesterday's decline in US equities was not a particularly bad one. Both S&P500 and NASDAQ finished down a little less than 1 percent, and even at their intraday worst, neither were down by too much more. Once again, the futures market shows an unwillingness to commit to the direction on opening, so Asia will most likely simply play catch up when it opens today. The bigger story though has to be the assault on parity by EURUSD. Intraday, the benchmark FX pair did briefly touch 1.0 if my screens are accurate, but it did not push through and is now at 1.0032. Another foray at parity seems extremely likely. The US CPI numbers later today may provide just the excuse to push down to new lows. Yesterday, "fake" CPI data suggested a spike in inflation above 10%YoY. This has been reported as one of the causes for yesterday's equity weakness and dollar strength. There was much less spillover to the AUD, which remains more or less unchanged at 0.6751, trading briefly up to 0.678 at one stage. Similarly for Cable, though it looked weaker for most of the day, even if it ended close to where it started at 1.1881. And the JPY pulled back to 136.83. Asian FX was broadly weaker against the USD yesterday, led by the PHP and KRW. US Treasury yields dropped slightly across the curve. Both 2Y and 10Y bond yields fell a little more than 2bp. The 10Y US Treasury now yields 2.969%.

- **G-7 Macro:** After yesterday's "fake" release, today we get the real CPI numbers for June, and the consensus expects these to show a rise from 8.6% to 8.8%YoY. The core rate is forecast to moderate slightly to 5.7%YoY. Real average earnings are also due. A fall of 3.0% tells you all you need to know about the outlook for consumer spending in the coming months. Yesterday, we got the US NFIB survey. It was extremely weak, with the headline index dropping to 89.5 from 93.1. The historic low reached during the global financial crisis was 81.6. It's not looking that far away. Final June inflation for Germany and UK industrial production and trade data complete the data releases for the G-7.
- **Korea:** The Bank of Korea will most likely deliver a "big-step" 50bp hike at their meeting today after June CPI inflation reached 6.0%. That would take the 7-day repo rate to 2.25%. If the US Fed hikes 75bp later this month, as widely anticipated, then US policy rates would overtake Korean rates and could heap more pressure on the KRW.
- **India:** June inflation came in at 7.0%. a little lower than the 7.1% consensus view (ING f 7.0%). There is some scope for moderation in the coming months as a decline in both energy and agricultural prices could pull inflation back below 7.0%, though a "within-target" inflation reading (4%+/-2%) looks elusive until we get closer to the year end.
- **China:** Covid is spreading in Shanghai. Positive cases are being quarantined in camps. Together with the news that Beijing City is withdrawing requirements to show vaccine records to enter specific places, the chances of a full lockdown in Shanghai appear low as residents oppose a return to the March-May situation. The government is trying to balance resident emotions and Covid-control measures.

Today's trade data release should show port and land logistics have recovered. This does not imply stronger domestic demand from import data and external demand from export data as port recovery will be the dominant factor in June's trade data.

## What to look out for: US CPI inflation

- South Korea unemployment (13 July)
- RBNZ policy meeting (13 July)
- China trade balance (13 July)
- South Korea BoK policy meeting (13 July)
- Fed's Barkin speaks(13 July)
- US CPI inflation (13 July)
- Singapore 2Q GDP (14 July)
- Australia employment change (14 July)
- Japan industrial production (14 July)
- India trade balance (14 July)
- US PPI inflation and initial jobless claims (14 July)
- China activity data (15 July)
- Indonesia trade balance (15 July)
- US retail sales, sentiment and industrial production (15 July)
- Fed's Waller, Bostic and Bullard speak (15 July)

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