Asia Morning Bites

Just in case markets need another excuse to panic - its Friday the 13th

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Macro outlook

- **Global:** US stocks took a breather yesterday, and both the S&P500 and NASDAQ finished broadly unchanged, though it was a choppy session with big swings in both directions. The same cannot be said about the benchmark FX index, EURUSD, which plunged to new lows of 1.0380 from the low-1.05s yesterday. The plunge dragged the AUD with it, which is now 0.685, though the JPY seems to be catching a bid here, and it has dropped back to 128.50. With the exception of the JPY, Asian FX was all down against the USD yesterday with the CNY showing little sign of halting its recent slide. Treasury yields were lower again, 2s falling more than 10s. 10Y US Treasury yields are now down 36bp from their May 5 peak at 2.86%. Have US treasury yields already seen their peak for this cycle? Discuss... really, I'd be interested in your thoughts...I'm not sure what the answer is but it must be worth considering...

  Data wise, it is a quiet day with the US University of Michigan consumer confidence index and associated inflation expectations measures. We've had Powell and Daly re-iterating the idea that the next FOMC meetings will deliver 50bp hikes, not 75bp, though this doesn't seem to be enough to quell market anxiety anymore. Kashkari has a speaking engagement today on energy and inflation, so we'll see if he has better luck.

- **India:** Late yesterday, India released April CPI, which came in at 7.8%YoY, a fair bit higher than the 7.4% consensus expectation. The upside surprise was partly food-related but was also supported by strength in the fuel and light component and transport (all reflecting higher energy prices) as well as clothing. Now that the RBI is in hiking mode after their 40bp hike this month, it may be worth considering if the next move will need to be 50bp?

  India also releases April trade data today. The market consensus is for the deficit to widen to -$20bn – for choice, I'd probably go wider still, reflecting domestic economic strength and higher-priced imported commodities.

- **China:** Beijing has three days of residents staying at home for Covid testing. Though not officially considered a "lockdown" the economic impacts will be similar. The zero-Covid policy is once again confirmed. Damage to the economy is difficult to estimate from the uncertainty of the timing and duration of lockdown. Guangdong province is experiencing floods from heavy rainfall. This may also affect the operations of some factories, adding another headwind to manufacturing and exports.

- **South Korea:** The government has proposed its 2nd supplementary budget worth 59.4 trillion won, of which 36.4 trillion won is allocated to the central government and 70% of the budget is allocated to compensate small business owners. The size of cash transfer is at least 6 million won to 10 million won each (USD450 – 800). The remaining 23 trillion won is earmarked to transfer to local government. No bond issuance is required as the budget is mostly financed through excess tax revenue of 53 trillion won and expenditure restructuring. This is expected to provide some relief to the bond market due to better supply conditions. However, higher-than-expected government spending could add further upside risk to the current CPI forecast of 4.6% in 2022 and trigger more aggressive monetary tightening. For now, we think that the Bank of Korea would stop at 2.25% and try not to go beyond that.

What to look out for: US sentiment

- Malaysia GDP (13 May)
- Hong Kong GDP (13 May)
- US Michigan sentiment (13 May)

Authors

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Robert Carnell
Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com