

Asia Morning Bites

Weak weekend lending data from China increases rate cut hopes as early as this week. Indian inflation data for April due ahead of this week's US inflation numbers



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Global Macro and Markets

- **Global Markets:** A disappointingly soft consumer confidence figure from the US on Friday mixed with rising inflation expectations helped to push US Treasury yields higher ahead of this week's important CPI inflation release on 15 May. 2Y UST yields rose 5 basis points to 4.866%, and 10Y yields rose 4.3bp to 4.496%. EURUSD has hardly changed at 1.0774. Other G-10 currencies are also fairly flat, except for the JPY, which has pushed up to about 155.8. Asian FX was also very quiet, except for the THB which gained just under 0.6%. US stocks also struggled to make headway on Friday. The combination of weaker growth and higher inflation was offset by prospects of better earnings for firms that buckled down on costs when recession fears were more credible. Both the S&P 500 and NASDAQ finished fairly flat on the previous session. US equity futures show little appetite for position-taking ahead of today's open. Chinese stocks fared better on Friday. The CSI 300 was almost unchanged, but the Hang Seng rose 2.3%, maybe boosted by reports that the live feed for Stock Connect would be removed and replaced by a daily update.
- **G-7 Macro:** Friday's University of Michigan consumer confidence data delivered a much softer 67.4 reading in May, down from 77.2 in April, and far worse than the 76.2

expectations. Both the current condition and expectations sub-indices were soft. Making matters worse, it looks as if respondents were also losing confidence that inflation was moderating. The one-year ahead inflation expectations survey rose to 3.5% from 3.2%, and even the 5-10 year survey increased from 3.0% to 3.1%. So while the dip in confidence may encourage thoughts of rate cuts, the inflation numbers snuff those thoughts out again. The New York Fed also releases inflation expectations data today. Unanchored inflation expectations are something central banks tend to take very seriously, so this is worth watching. UK GDP surprised on the upside on Friday, coming in at 0.6% QoQ, ahead of 0.4% consensus expectations. Business investment strength was the main source of the surprising strength. [James Smith outlines in this note why he thinks this stronger growth will continue.](#)

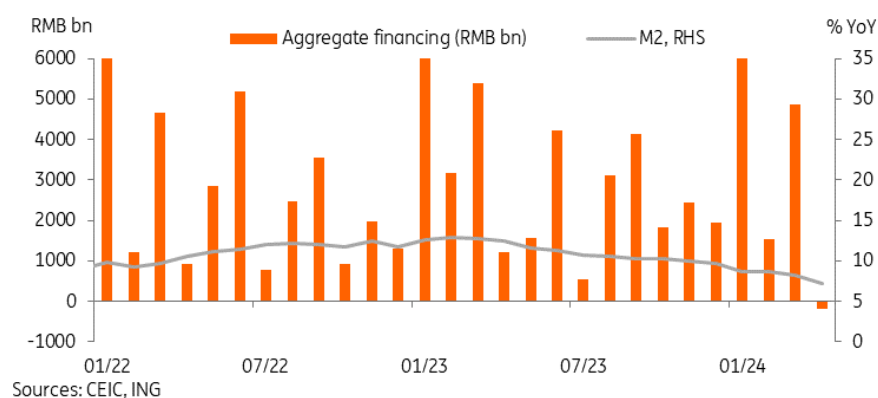
- **India:** April inflation is due later today. We are looking for inflation to come in at around 5.0%, a little higher than the consensus forecast for a slight decline to 4.8% (4.85% in March). There are no particularly significant aspects to this forecast, and the difference in our numbers probably just reflects differences in the degree to which we believe March gasoline price falls spill over into April's numbers. India also reports trade figures later today. A slightly wider trade deficit is the market expectation following several months of narrowing.
- **China:** Inflation and credit data were published over the weekend. CPI inflation was in line with our forecast of 0.3% YoY, and as expected food prices continued to drag inflation (-2.7% YoY) while non-food prices remained at positive levels (0.9% YoY). Pork prices recovered to positive levels in April and should continue to rise, but other key drags from beef, eggs, and fruit prices kept food inflation well in negative territory. We expect inflation to remain low in 2Q24 but to pick up in the second half of the year.
- In the credit data, we saw a sequential decline of RMB 199 bn in aggregate financing, the first contraction since October 2005, which was due to a contraction in foreign currency loans and bankers' acceptance bills. New RMB loans also hit a 9-month low of RMB 331 bn. Aggregate financing and new RMB loans through the first four months of the year saw negative growth at -19.3% YoY and -15.3% YoY respectively, while M2 growth fell to the lowest level on record at 7.2% YoY. This very weak credit growth may indicate that real interest rates remain too high for the current strength of the economy. The weekend's data may increase the urgency to lower funding costs with an interest rate cut. The market's baseline case for this Wednesday's medium-term lending facility rate remains no rate cut, as previous hints pointed to RRR cuts prior to a rate cut, but the weekend's data add to the probability of a surprise rate cut.

What to look out for: India's inflation report

- India trade balance (13-15 May)
- India CPI inflation (13 May)
- Japan machine tool orders and PPI inflation (14 May)
- US PPI inflation and NFIB survey (14 May)

- China medium-term lending facility (15 May)
- Australia wage price index (15 May)
- Indonesia trade (15 May)
- Philippines remittances (15 May)
- US CPI inflation and retail sales (15 May)
- Japan GDP and industrial production (16 May)
- Australia labour market data (16 May)
- Philippines BSP policy (16 May)
- US initial jobless claims and housing starts (16 May)
- Singapore NODX (17 May)
- China industrial production (17 May)
- US leading index (17 May)

Weak credit and money supply data raises odds for rate cuts this year



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