

## Asia Morning Bites

Asian FX vulnerable to sell-off after US inflation surprise.



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### Macro outlook

- **Global:** The biggest surprise this morning is that US stocks are not down more than they are. The S&P500 and NASDAQ are down 0.45% and 0.15% respectively, but this comes after a day when US June inflation beat expectations (again) coming in at 9.1%YoY. The market moved to price in a 100bp hike later this month (92bp priced in now), and the USD hit parity with the EUR. It has backed off now at 1.004, but if there were any doubt yesterday about EURUSD parity, the intraday 0.9998 looks pretty clear today. And as we speak, the USD is heading back down so we may test some new lows today. The AUD was doing quite well yesterday until the CPI news, fell sharply, recovered, and then lost all of its gains again. It isn't much weaker than this time yesterday at 0.6742, however. Cable performed a similar slump, recover, slump pattern, as did the JPY, though the JPY has trended weaker over the last session and is back in the mid-137s now. Besides these moves, Asian FX hasn't done much, but may well sell off today to catch up with moves in the majors.

Following the CPI release, it isn't too surprising to see 2Y US Treasuries up 10.6bp at 3.155%, while 10Y yields dropped by 3.5bp to 2.934%, widening the inversion. With 3m rates currently at about 2.5%, it won't be long before the 3m10Y inversion takes place, which some pundits view (probably misguidedly) as a better measure of recession expectations. It's a bit like waiting for a recession to happen before calling it. It will be more accurate, but

what value is it actually giving?

- **G-7 Macro:** [James Knightley has written on the US inflation surprise here](#). The only crumb of comfort being the slight moderation in the core rate to 5.9% from 6.0% the previous month. Headline prices gained 1.3% in the last month alone. PPI inflation is due for release today. The forecast slight decline in the headline rate to 10.7% from 10.8% may look a bit optimistic in the context of these latest CPI numbers, but the overlap is not that big. The Fed's Beige book was also published yesterday and showed that although the economy expanded at a moderate pace in the last month, several districts noted growing signs of a slowdown in demand and noted concern over an increased risk of recession. The newswires are filled with Fed speaker comments today – including Bostic, Barkin, Daly and Mester. The message is pretty much the same. The Fed is determined to stamp out inflation. There is a hint of “whatever it takes” about these comments. At least one of the speakers mentioned that a 1 percentage point hike was in the realms of possibility. Perhaps the only “bright spot” was Daly’s remark that there might be a little bit of slowing in the pace of hiring.
- **Singapore:** Singapore 2Q GDP slipped below market consensus, posting a 4.8% gain versus 5.2% consensus. The bigger news was the surprise policy tightening by the MAS, to fight off inflation. The MAS re-centred the policy band to "prevailing rates" while leaving both slope and bandwidth untouched. The MAS also pushed up headline and core inflation estimates for the year. The SGD should be supported in the near term by this surprise tightening, but stubbornly high inflation means we can't rule out further action from the MAS in October.
- **Australia:** Labour market data later today is worth a look as it is still one of the key inputs into the RBA decision, though the 2Q CPI data due on 27 July will be more pivotal. Watch the unemployment rate which is expected to drop to 3.8% from 3.9%, equalling the all-time low.
- **India:** Trade data due either today or tomorrow will likely show a further widening of the deficit as import prices remain high and domestic demand - for now - remains robust. We may see some moderation in the deficit in the coming months as imported food and energy prices have come down a bit in the last month. That could provide some support for the INR

## What to look out for: Fed speakers and China activity data

- 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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