

Asia Morning Bites

BoJ meeting is centre-stage today



Asia Morning Bites

Source: shutterstock

Global Macro and Markets

- **Global Markets:** US Treasury yields continued their downward drift yesterday helped by weak PPI data. 2Y yields fell 5.5 basis points, and 10Y yields fell 7.2bp to 4.244%. There are a couple of Fed speakers today, so we may hear if FOMC views towards rate cuts have softened in the light of recent data. French 10Y government bond yields moved a little higher again yesterday, unlike those for most of the Eurozone region. German 10Y bund yields in contrast followed Treasury yields lower. EURUSD didn't respond to the decline in US Treasury yields, and instead, dropped to 1.0740. Other G-10 currencies have also lost ground to the USD. USDJPY has risen to 157.10 ahead of today's BoJ meeting. There was a mixed performance across the rest of the Asia FX pack. Most SE Asian currencies made small gains, catching up with their G-10 peers from the previous day. But the CNY was weaker, probably not helped by the EU's EV tariff announcement, which was at the higher end of expectations. USDCNY is now 7.2525. US stocks are trading at record highs after small gains yesterday led by semiconductor-related stocks.
- **G-7 Macro:** US PPI added to the disinflationary message conveyed by Wednesday's CPI numbers. The headline PPI figure for May dropped by 0.2% MoM, much lower than the positive 0.1% expected. That has taken PPI inflation down to just 2.2% YoY from 2.3% in April. Core PPI was flat from the previous month. Apart from the BoJ meeting (see below), we also get the US University of Michigan consumer sentiment and inflation expectations

data for June later today. Inflation expectations may lag the better news on inflation that we have seen lately, so the consensus expectation of a decline is far from guaranteed.

- **Japan:** We expect the Bank of Japan (BoJ) to maintain its policy rate settings at its meeting today, keeping the target for the overnight uncollateralized call rate at 0.0-0.1%. Recent economic data around prices and growth support policy normalization. However, the BoJ is likely to wait for confirmation from wage and consumption data moving in line with their projections before taking action in July. The focus of the meeting is likely to be on JGB purchases. It is possible that the BoJ will tweak its JGB buying operation with only a small reduction (e.g. less than 1 trillion yen per month), but we are not sure that the BoJ will start cutting without a grace period.

Aside from the BoJ meeting, revised industrial production data and the tertiary industry index for April will be released in the afternoon. We expect the tertiary industry index to rebound from the previous month's decline, while industrial production is likely to be revised up slightly into positive territory.

- **South Korea:** Import prices accelerated to 4.6% YoY in May from 2.9% in April mainly due to a supportive base last year. Monthly growth declined by 1.4% MoM nsa in May as global commodity prices fell during the month and the KRW stabilised. Given the 2-3 month time lag for pipeline inflation to feed through to consumer prices, today's data support our view that consumer prices will cool rapidly from August and September onwards.
- **China:** Aggregate finance data is due shortly, and may be released today, though a weekend release is also possible.

What to look out for: BoJ meeting

- Japan's BoJ meeting and industrial production (14 June)
- US University of Michigan sentiment (14 June)

Authors

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@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 <http://www.ing.com>.