Asia Morning Bites

BoJ meeting is centre-stage today

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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)

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