

Asia Morning Bites

Jitters to dominate in Asia ahead of tonight's FOMC



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Macro outlook:

- **Global:** The equity rout has stopped, or at least paused, or maybe just slowed. The S&P500 fell only a further 0.38% yesterday, while the NASDAQ managed to achieve a minuscule gain. But we have the Fed rates meeting in the early hours of tomorrow morning (02:00 SGT) and there may be some jitters ahead of that meeting during trading today. Put it this way, what is the message that the Fed can deliver that says both “We’re on top of inflation” and “We’re not going to tip the economy into recession”? I’m not sure I know how they could do that, as the answers are almost mutually incompatible. It’s worth watching the volume trading figures though, which have crept up above their recent average. We may be getting closer to a deciding move, though it doesn’t feel like we are there just yet.

US Treasury yields at the front end of the curve continue to power higher. 2Y US Treasury yields increased 7.3bp yesterday and now stand at 3.427%. 10Y Treasury yields pushed up another 11.3bp to 3.473%. The yield curve is very flat, but markets may be hedging their bets on recession for now.

G-10 currencies had a choppy day. EURUSD is more or less unchanged from a day ago at 1.0431, but did have a couple of forays towards the 1.05 level, failing each time. Cable just looks outright weak. At 1.2007, politics surrounding the UK government’s plans to overhaul

the Brexit bill aren't going down well with markets. And the AUD is also struggling still, at 0.6881, meeting our end of 2Q22 forecast a couple of weeks early. No one is more surprised than us! The slightly better risk sentiment has allowed fundamentals to dominate the JPY in the last 24 hours, and it has resumed its weakening trend, pushing above USDJPY 135. Aside from the JPY, Asian FX hasn't done too much more after Monday's slide, though the THB has lost some more ground, coming within spitting distance of USDTHB 35. As the Thai central bank sits on its hands, this and higher exchange rates are probably only a matter of time.

As well as tonight's FOMC meeting, today's G-7 calendar includes European industrial production and trade figures for April. In the US, the May retail sales release is the main pre-FOMC interest. Consumer sentiment has slumped, [but as James Knightley points out, this isn't a great predictor of consumer spending these days.](#)

In terms of the FOMC meeting itself, the accompanying support materials will be of some interest – dot plots, inflation and GDP projections. But surely we know enough not to place any weight on central bank forward guidance now?

- **China:** Retail sales, industrial production, and fixed asset investment, as well as surveyed jobless rate data, will all be released this morning. We expect a YoY drop in retail sales in May as Shanghai was under lockdown and Beijing was in semi-lockdown. We also expect a slight YoY drop in industrial production as logistics around Shanghai were disrupted and should affect materials delivery for production. Fixed asset investment should continue to record single-digit growth, mainly due to infrastructure projects offsetting the negative growth in property investment. Overall, we still expect a -1%YoY GDP contraction in 2Q22 as more restrictions on people and transport flows in Beijing were imposed. It is very difficult to achieve positive growth this quarter.

Following all this weak data, we should expect the government to respond with more fiscal stimulus and also some monetary easing, which could put depreciation pressure back on the CNY against the USD.

- **South Korea:** The seasonally adjusted unemployment rate ticked up to 2.8% in May (vs. 2.7% in April), but the labour participation rate rose to 64.2% (vs. 63.8% in April), suggesting that employment recovery momentum has continued. Reopening appears to have had a positive impact on the service sector as hospitality and leisure services gained employment while manufacturing lost some jobs. We think the unemployment rate will continue to rise gradually, but not as a particularly negative signal for labour market conditions, but mainly because of an expanding labour market.
- **Japan:** In April, core machinery orders increased surprisingly by 10.8% MoM (vs -1.3% market consensus, and 7.1% in March). This continues the upward trend for a second month. Overseas orders rebounded more than domestic orders. Although this data tends to be volatile, the sequential series is on the rise, which is a positive signal for investment in 2H22.
- **Indonesia:** May trade data is scheduled for release today. Recent trends in trade data are

likely to extend for another month as surging commodity prices pad Indonesia's exports. Imports are also likely to post substantial double-digit gains as Indonesia imports pricier fuel and foodstuffs. The overall trade balance will likely stay in a healthy surplus but the recent palm oil export ban may lead to a narrowing of the surplus. Record high trade surpluses have helped support IDR and the currency should face additional depreciation pressure if this key support fades.

- **Philippines:** April overseas remittance data will be reported today and the market consensus expects a 3.6% gain. Remittance flows have proved to be extremely resilient, even at the height of the Covid-19 pandemic in 2020. Remittances provide important support for the PHP on top of a boost to household consumption. Despite this consistent source of foreign currency, the pace of remittance growth may only partially offset the stark widening of the trade deficit, with the Philippines now running a consistent current account deficit. Today's remittance report may provide some relief to the peso but don't expect it to reverse the current depreciation trend.

What to look out for: FOMC meeting

- Japan core machine orders (15 June)
- Australia consumer confidence (15 June)
- China 1-year medium term lending, activity data (15 June)
- Indonesia trade balance (15 June)
- US retail sales (15 June)
- FOMC meeting (16 June)
- Taiwan CBC meeting (16 June)
- New Zealand GDP (16 June)
- Japan trade balance (16 June)
- Australia employment change (16 June)
- BoE meeting (16 June)
- US initial jobless claims, building permits and housing starts (16 June)

- Singapore NODX (17 June)
- Malaysia trade (17 June)
- BoJ meeting (17 June)
- US industrial production (17 June)

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