

Asia Morning Bites

China's medium-term loan facility is set for release today. Australia also reports their wage price index



Asia Morning Bites

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Global Macro and Markets

- **Global markets:** Despite higher-than-expected US PPI numbers ahead of today's big CPI release, US Treasury yields fell on Tuesday. Both the 2Y and 10Y US Treasury yields fell 4.7 basis points. The 10Y yield is now 4.439%. Newswires report that the underlying components of PPI that feed into the CPI release were softer, which may have raised hopes of a softer CPI figure today. While there is overlap between these two series, they are different enough that reading across from one to another is subject to a fair amount of risk. Fed Chair Powell overnight reiterated his message of caution over rate cut expectations. That doesn't necessarily sound like someone who is expecting a great CPI number today. However, Powell and Loretta Mester both poured cold water on rate hike thoughts. EURUSD has pushed above 1.08 and is trading at 1.0815 as of writing. The JPY continues to look weak and is up to 156.46 now, but most of the other G-10 currencies made gains against the USD in a choppy session. Asian currencies did very little yesterday, most were rangebound. The THB managed to gain about half a per cent on the day. USDCNY is now 7.2337, about the same as yesterday. US equities found some comfort in the details of yesterday's PPI numbers and made some modest gains. The S&P 500 rose about half a per cent and the NASDAQ rose 0.75%. Chinese stocks fell slightly. Both the CSI 300 and the Hang

Seng fell about 0.2%.

- **G-7 macro:** A decline in airfare prices in the April US PPI data was one of the main reasons that the markets took comfort in what was, at face value, a bad upside miss. The final demand PPI index rose 0.5% MoM, more than the 0.3% gain that was expected. Some downward revisions to the prior month's figures helped the dovish interpretation. Core PPI also rose 0.5% MoM, beating the expectations. CPI data today will add more fuel to the inflation debate. The market expectation is a 0.4% MoM increase in the headline and a 0.3% MoM increase in core prices. Both would be higher than the rate required to bring inflation back to target, even if helpful base effects may enable the inflation rates to ease slightly if this occurs. Retail sales are also due later. The market is looking for a somewhat softer reading of 0.4% MoM, with a control group increase of only 0.1%. Newswires are already trying to drum up excitement over "stagflation" in the event of weaker figures. We don't think such emotive language is remotely appropriate. But that won't stop them.
- **Australia:** The 1Q24 Wage price index is out at 0930 HKT/SGT. The RBA said in its latest statement that wage growth had peaked. That is probably behind forecasts for a 4.2% YoY growth rate, the same as in 4Q23.
- **China:** The PBOC will set its 1-year medium-term lending facility rate this morning. Weak credit data over the weekend raised odds for an early rate cut, but the odds are still balanced toward no change this month, keeping the 1-year MLF rate at 2.5%. Recent data with low inflation, credit contraction, slowing money supply growth, and weak private sector investment present a strong case for rate cuts, suggesting that real interest rates remain too high and that RRR cuts are seeing diminished effectiveness. With that said, currency stabilisation has been a key consideration this year, and policymakers likely prefer for global rate cuts to begin before starting to cut rates. Previous communications also hinted at an RRR cut coming before a rate cut. A surprise cut before this process gets underway could point to weaker-than-anticipated economic momentum.

What to look out for: China's MLF and Australia's wage price index

- 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)

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