

## Asia Morning Bites

Post-Fed reaction, Australian labour market, Taiwan rates, and Korea policy discussion provide plenty to chew over today



## Asia Morning Bites

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### Macro Outlook

- **Global:** Somehow, the Fed managed to thread the needle of increased inflation fighting aggression, while not appearing to cement expectations of recession, at least not a hard one. Markets signalled their relief. That said, there's more tightening to come, a lot more. The new dot-plot median signals a 3.4% year end-rate up from 2.8% previously, and long run rates have been nudged higher to 2.5%. But the 1.7% GDP forecasts for 4Q on 4Q GDP growth for both 2022 and 2023 of 1.7% (down from 2.8% and 2.2% respectively) are still high enough for now not to scream recession. That said, given their recent record, it is a wonder why anyone would pay any attention to their forecasts. Helping to explain all of that, and also what this means for the broader economy, FX and rates, [please see this linked note from our NY colleagues](#).

Returning to markets, the S&P500 picked back up by 1.5%,. And the NASDAQ by 2.5%, though both remain in bear-market territory. Equity futures are quite positive still this morning in Asia, but the tail-end of the trading in the US was for some failed up-moves, so it is not obvious that this is going to hold. That said, we may be in for a bit of range trading for a while until we can figure out what the next narrative is. Incidentally, I mentioned trading

volumes in yesterday's note as relevant for defining end-points in bear markets. The volumes yesterday were better than in recent weeks, but were still drifting lower from Tuesday. This probably isn't over.

The US Treasury market saw substantial upheaval, with the yield on the 2Y note dropping 23bp as Fed funds expectations were pulled back. 10Y yields dropped 18.9bp to 3.284%, allowing the yield curve to steepen slightly, though it is still less than 10bp on a 2s10s basis. European bond yields were also sharply lower, helped by [ECB signals that they are working on a new tool](#) to combat the widening in spreads seen in some economies – notably Italy, where yields across the curve fell by more than 35bp, with the steepest drop in the 5Y section of the curve. Japan's 10Y JGB yield briefly shot above 0.30% yesterday, ahead of tomorrow's BoJ meeting, and there is a growing chorus calling for the yield curve control band to be widened to bring a 0.5% yield into play. That could, if entertained, provide a short term boost to the JPY, but there has been little indication that this is on the cards, though it may be worth considering.

G-10 currencies have not markedly changed despite the swings in yields, probably because all yields are plunging, not just US ones. EURUSD is now 1.0447. When we wrote yesterday, it was about 1.0420 – so the USD is a bit weaker vs the EUR, but not massively so. Cable pulled itself up to 1.2161, and the AUD has clawed back to almost 0.70, while the JPY has also managed to recover to 134.08.

Asian FX was split yesterday, though will likely play catch up today. THB intervention by the Thai central bank was one of the main facets of yesterday's regional FX action, along with the no-confidence opposition motion. Until the BoT steps up with some rate increases, the THB will likely remain pressured.

**Australia:** We also get Australian labour market data for May later this morning. We are in line with the market in looking for a modest further gain in employment, but a further 0.1pp decline in the unemployment rate. That should keep the RBA in its new-found hawkish mode and may help push the AUD more meaningfully back above 0.70.

- **South Korea:** Bank of Korea Governor, Rhee Chang-yong, and Finance Minister Choo Kyung-ho and heads of financial regulators met this morning to discuss the FOMC meeting results, major risks, and markets. In the Q&A session, Minister Choo mentioned that the government would conduct emergency bond buybacks if market volatility increased and the BoK's direct KTB purchase option would also be on the table.

Governor Rhee also said that the BoK would monitor market reactions first as the next MPC meeting (on July 13th) is 3-4 weeks away and would not consider holding an ad-hoc emergency MPC meeting. Governor Rhee stressed that the BoK will be paying more attention to overall market impacts from the Fed's hikes, not the yield gap itself. As mentioned in the earlier notes, we are open to the possibility of a 50bp BoK hike in July, but if Korean financial markets digest the Fed's giant step well, they probably will deliver just a 25bp hike. As inflation targeting and financial market stability are both the BoK's mandates, from now on, how financial markets react will be key to watch. If the June CPI comes out above 6% (which is the current forecast of ING), and financial markets' one-sided move continues, we think the possibility of 50 bp hike will rapidly increase.

Korean import and export price data showed that pipeline price pressures are rising at a faster pace, supporting our view of above 6% CPI in 3Q22. Import prices rose 36.3%YoY in May (vs 35.0% in April) mainly driven by energy (93.2%)

- **Japan:** Exports rose 15.8% YoY in May (vs 12.5% in April), but lower than the market expectation of 16.1%. Imports surged 48.9% in May (vs 28.2% in April), hitting an 8 year high - mainly due to the weak JPY adding more pressure on higher energy prices. The trade deficit widened to -2.3 trillion JPY (vs -0.8 trillion in April), recording ten straight months of deficit.

**Taiwan:** The central bank is going to hike today. The question is whether it will follow the Fed's 75 bps hike from the current 1.375%. The Taiwan economy has signs of inflation, but that has been moderate at 3.39%YoY in May, not comparable to US's CPI inflation rate of 8.6%YoY in May. A hike of 75 bps or even 50 bps could deter investment demand from manufacturers. A 75 bps hike is likely to lead to a jump in TWD against USD.

## What to look out for: BoE meeting

- 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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