Asia Morning Bites

Australia reports labour market data while the Bangko Sentral ng Pilipinas meets to decide on policy

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Global Macro and Markets

- **Global Markets:** US Treasury yields tumbled after what was, objectively viewed, only a very modest undershoot of April's inflation forecasts. The 2Y yield fell 9.1 basis points while the 10Y fell 9.9bp and is now just 4.34%. There was also some help from the retail sales release, and for the first time in a long while, we now have hard activity data sending a weak message along with the softer survey data. A bit more help from the labour market and expectations for Fed easing will grow. That said, the inflation figures remain inconsistent with the Fed's target, and core inflation only fell because last year's April reading was so high. May provides an opportunity for undershooting another high base, but then unless the monthly run-rate of inflation drops substantially, inflation will stall, or even begin to drift higher again. So don't get too carried away. Our rates team thinks bond yields are vulnerable to a retracement higher. See here for more on this.

  Rate cut expectations have shifted a fair amount already. A September rate cut is now fully priced in. A second cut is also fully priced in by December. EURUSD is heading towards 1.09 and is now up at 1.089. The AUD has risen to just under 67 cents. Cable is nearing the 1.27 mark, and even the JPY has taken some comfort from these numbers and has plunged to 154.26. Asian FX has also been buoyed by these figures, led by the THB, PHP and SGD.

USDCNY is now at 7.2190. US stocks rallied on the improved prospects for rate cuts. The S&P 500 and NASDAQ both gained more than a per cent. Chinese stocks fell slightly again yesterday.

- **G-7 Macro:** The US April CPI result came in marginally below expectations. The headline CPI index rose 0.3% MoM, rather than the 0.4% expected, and this led to the annual inflation rate falling from 3.5% to 3.4%. The core rate also rose 0.3% MoM, though this was in line with expectations. Thanks to an almost 0.5% MoM reading for the previous year, this helped the core inflation rate to fall to 3.6% YoY from 3.8% in March. Last year's May figure was closer to 0.4% than 0.3%, so if this run-rate continues, we could see core May inflation drop to 3.5%. Thereafter, the comparison becomes much harder. Today is a bit quieter for Macro. Japan has released weaker than expected GDP for 1Q24, though this was never going to be a good figure (see below for more) and the US releases its usual weekly jobless claims together with housing starts and permits data. We also have another flurry of Fed speakers today who may pour cold water on the market's latest enthusiasm for rate cuts.
- **Australia:** Employment data for April is released at 09:30 HKT/SGT. This is subject to the usual volatility, but for what it is worth, the forecasting consensus expects a total employment increase of around 24,000, and the unemployment rate to rise to 3.9% from 3.8%. We will know soon enough.
- **Japan:** Japan's GDP contracted 0.5% QoQ sa in 1Q24, weaker than the market consensus of -0.3%, and the previous quarter's GDP was also revised down to 0.0% from the previous 0.1% QoQ gain. The details were also quite discouraging. Both domestic and external demand weakened. Private consumption declined by a further 0.7% (vs revised -0.4% 4Q23, -0.2% market consensus) and business spending fell -0.8% (vs revised 1.8% 4Q23, -0.5% market consensus). We believe that the disruptions of car production and sales due to a safety scandal have distorted the overall growth figures and expect a technical payback in 2Q24. Monthly activity data already shows a gradual normalization since March. Private consumption, which has declined for four consecutive quarters, will be a key concern for the BoJ. We believe this was mainly due to high inflation, partially driven by the weak currency. If the BoJ also expects GDP to recover in 2Q24, then the BoJ's focus should remain on high inflation and the JPY as a major contributor to high inflation. We think the BoJ's surprise cut to JGB buying is an interesting move, suggesting a reaction to the weak currency. April inflation is expected to ease quite sharply due to a high base last year, but pipeline inflation indicates upward inflationary pressures building for the coming months. We believe that the BoJ is ready to act in July, as it confirms that strong wage growth is boosting household spending.
- **Philippines:** The Bangko Sentral ng Pilipinas (BSP) meets to decide on policy today. BSP is expected to keep policy rates untouched today. Market participants will be on the lookout for any changes in tone from Governor Remolona after both inflation and GDP came in below expectations.

What to look out for: Japan's GDP, Australia's labour market data and BSP meeting

- 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)

Author

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

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