

## Asia Morning Bites

Japan recorded stronger-than-expected growth in 1Q while Australia will report wage data later today. US debt ceiling talks inch along but no deal yet



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### Global Macro and Markets

- **Global markets:** US stocks opened slightly lower on Tuesday, but for most of the session traded sideways before a late slump. The S&P 500 finished down 0.64%, while the NASDAQ lost only 0.18%. Chinese stocks had a non-descript day. The CSI drifted slowly lower, losing 0.53% on the day, while the Hang Seng index traded sideways to finish virtually unchanged. US Treasury yields continued their slow march higher. The yield on 2Y Treasuries rose 7.2bp to 4.082%, while that on the 10Y Treasury rose 8.0bp to 3.534%. This was despite Kevin McCarthy saying some progress towards a debt ceiling resolution had been made even though he said negotiations were still far from reaching an agreement. President Biden will also, apparently, cut short his overseas trip. EURUSD is little changed at 1.0863 from this time yesterday. But the AUD has sunk back to 0.6654 and Cable has also lost ground after some whip-saw moves during the day, taking it to 1.2482 currently. The JPY has also lost ground to the USD, rising to 136.42. Other Asian FX was also mostly offered against the USD on Tuesday. The Thai baht gave back its gains from Monday, losing 0.65%, and the CNY also came under some selling pressure after the weaker-than-expected data dump. That probably helped pull the SGD and KRW lower too.

- **G-7 macro:** Aside from the glacial pace of progress on US debt negotiations and some Fed debate about whether rates were sufficient to bring inflation down or needed to be raised further, the main macro focus yesterday was on the US retail sales figures. These actually came in on the lower end of expectations though the news was mixed, with a lower headline but higher core sales figures (control group) muddying the message. Data from the UK showed monthly payrolled employment falling sharply in April, while wages growth still remained strong. Eurozone GDP rose 0.1% as expected, but there were more worrying signs for Germany from the latest ZEW survey. [See here for Carsten Brzeski's take on these latest numbers.](#)

Today is quiet except for US housing starts and permit data.

- **Australia:** Recent comments about the pace of unit labour cost growth by the Reserve Bank of Australia (RBA) Governor suggest that today's wage price index could be an important release shaping their thoughts ahead of the next policy meeting. The previous (4Q22) rate of annual increase was 3.3%. Anything above 3.5% might be considered as incompatible with sustainably returning inflation to within its 2-3% target range, and would therefore require further tightening. We are still looking for a further 25bp of rate hikes from the RBA which would take the cash rate to 4.1%.

- **Japan:** 1Q23 GDP grew 0.4% QoQ sa in the first quarter, which was in line with our own forecast but higher than the market consensus of 0.2%. 4Q22 GDP growth was revised down to -0.1% from 0.02%. The easing of covid restrictions including border opening seems to have boosted consumption and investment, but weak global demand weighed on exports.

Domestic demand made a positive contribution of 0.7% pp, but this was partially offset by a -0.3% pp net export contribution. Private consumption and business spending gained 0.6% (vs 0.2% in 4Q22) and 0.9% (vs -0.7% in 4Q22) respectively.

Today's stronger-than-expected GDP outcome supports our view that the BoJ will take a step toward normalization before long. Japan's economy appears to be on a gradual recovery track despite sluggish global demand. Also, yesterday, the Japanese government approved an electricity bill rise from June, which is expected to keep inflation above 2% for longer than expected. We will need to revise our inflation forecast higher. Although this is mainly cost push inflation, it will still drive up core inflation to some extent as well. Thus, with higher than usual wage growth this year, the BoJ will probably revise its YCC policy at the upcoming June BoJ meeting.

- **Singapore:** Singapore reports non-oil domestic exports (NODX) fell by 9.8% in April, in-line with expectations. NODX remained in contraction for a 7th consecutive month as global demand remains soft. The downturn in the trade sector is expected to last in the near term and continue to weigh on growth prospects in the 2Q.

## What to look out for: Australia wage data

- Singapore NODX (17 May)

- Australia wage price index (17 May)
- US housing starts and building permits (17 May)
- Japan trade balance (18 May)
- Australia unemployment (18 May)
- BSP policy rate (18 May)
- US initial jobless claims and existing home sales (18 May)
- Japan CPI inflation (19 May)
- Malaysia trade (19 May)

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