

Asia Morning Bites

Markets buoyant despite hawkish Fed; 1Q22 Japanese GDP better than expected



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Macro outlook

- **Global:** A risk-on rally drove markets yesterday, though it's not entirely clear where this sprang from. Equity futures are also largely positive, so it looks as if this sentiment will at least last for the start of Asian trading, though whether it is sustained for longer is another matter. There was some slightly better than expected [April retail sales data from the US](#) yesterday, though it's also not clear that this is what we need right now. Economic strength means more Fed tightening, so we could be entering an environment where bad economic news equals good news for markets. The Fed, meanwhile, remained in hawkish mode, with Chair, Jay Powell, saying that the FOMC "would not hesitate" to take rates beyond neutral levels if inflation did not abate. Treasury markets sold off on the remarks. Yields on the 2Y US Treasury note rose 13bp to 2.7%, while those on 10Y bonds rose 10bp to 2.98%. Normally, a rising discount rate like this would be associated with equity weakness as it undermines valuations, but maybe this will be a delayed reaction today...?
- The return of risk appetite also buoyed the EUR and AUD, both of which moved higher on the day, and the JPY softened a touch as safe-haven demand ebbed. Asian FX broadly had a good day yesterday, though the INR, and IDR lagged the gainers.
- **Australia:** Today's 1Q22 Wage Price index is less pivotal now than it could have been, now

that the RBA has already started to hike rates. This index was supposed to be the final hurdle confirming that inflation was “sustained”. We don’t need this confirmation now, though if the figure comes in stronger than the 2.5%YoY rate expected by the consensus, then it could encourage thoughts of a faster pace of tightening near-term than the 25bp rate hikes the RBA started with.

- **China:** Home prices are expected to fall more steeply in April on a monthly basis due to lockdowns in Shanghai as well as discounts given by cash-strapped real-estate developers. The government has so far only relaxed mortgage and home purchase restrictions rather than providing more room for leverage for real estate developers. This implies that the government is not willing to sacrifice the previous deleveraging efforts on property developers in exchange for a boost to short-term growth.
- **Japan:** 1Q22 GDP contracted by -0.2% (QoQ sa) from +0.9% in 4Q21 (revised down from 1.1%) due to sluggish trade and consumption, but it was better than the market forecast of -0.4% QoQ. The biggest upside surprise came from private consumption, which remained flat from the previous quarter and beat the market consensus of -0.5%. Monthly activity data had suggested that household spending bottomed out in late February. But the rebound appears to have been stronger than expected, despite surging prices. Other details were mostly in line with expectations. The net export contribution recorded -0.4%, mainly due to increased energy imports and global supply chain disruptions, while business spending also improved to 0.5% (vs 0.4% in 4Q21). We expect GDP to return to positive growth in 2Q22. Reopening effects should stimulate domestic demand, led by private consumption, but the trade drag is likely to deteriorate further.

What to look out for: Australia wage price index and China home prices

- Japan GDP (18 May)
- Australia wage price index (18 May)
- China home prices (18 May)
- US housing starts (18 May)
- Japan trade balance (19 May)
- Australia unemployment (19 May)
- Philippines BSP policy meeting (19 May)
- Singapore 1Q GDP final (19 May)
- US initial jobless claims (19 May)
- Japan CPI inflation (20 May)

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