

Asia Morning Bites

Strong exports buoyed Japan's trade in May. Indonesia will also release their latest trade figures today



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Global Macro and Markets

- **Global Markets:** US Treasury yields reversed course on Tuesday and began heading lower again. Both 2 and 10Y yields dropped by about 5-6 basis points, undoing the previous day's gains. The 10Y yield is now 4.223%. Perhaps this reflects a bit of front-running of the forthcoming PCE numbers, which will come in soft after the recent weak CPI print. A swathe of Fed speakers yesterday urged caution regarding rate cut expectations, but markets seem to be hardening their preference for two cuts this year. Weaker yields have helped G-10 currencies to firm against the USD. EURUSD is up to 1.0740 now. The AUD has risen to 0.6659. Cable is slightly stronger, but the JPY is about unchanged over the last 24 hours. There wasn't a great deal of movement in other Asian FX yesterday, just some small gains across the board against the USD, and there will probably be a bit more of the same today. US equities are finding it harder to move higher at these elevated altitudes. The S&P 500 went sideways yesterday, as did the NASDAQ. Chinese stocks were mixed. The Hang Seng fell slightly, but the CSI 300 rose 0.27%.
- **G-7 Macro:** Besides the cacophony of Fed speakers, all singing from the same "caution on rates" hymn sheet, we also got macro input in the form of the May US retail sales release. This was quite a lot softer than had been forecast. Headline sales rose just 0.1% MoM. The

control group rose 0.4%, which wasn't too bad, but even this was a little lower than the 0.5% gain expected. All of this helps support the case that the US consumer has finally started to pare back their spending. [Here's James Knightly with a more detailed look at these figures and what they mean for the Fed.](#)

On the flip side, US industrial production for May rose 0.9% MoM, much higher than the 0.3% gain expected. It's never clear-cut with macro data, but the overall balance does seem to be pointing to weaker growth ahead.

There's not much out of the US today, except for some mortgage application data. The UK has May inflation numbers, which will help feed the debate on the timing for any Bank of England rate cuts this summer.

- **Japan:** May trade data was broadly in line with the market consensus. Exports rose 13.5% YoY in May (vs 8.3% in April, 12.7% market consensus). The gain was mainly driven by semiconductor equipment (45.9%), semiconductors (32.2%), and transportation equipment. Vehicle exports continue to rise 13.6% and vessels (161.8%) also jumped. By country, exports to the US (23.9%) and China (17.8%) rose strongly while exports to the EU (-10.1%) fell. Meanwhile, imports rose modestly 9.5% YoY in May (vs 8.3% in April, 9.5% market consensus). The trade deficit widened to -1,280 billion JPY (vs -465 in April, -1,280 market consensus).

The minutes of the April BOJ meeting were released. Our summary of the remarks is that board members would like to maintain accommodative monetary conditions, but there were more views in favour of a faster pace of normalization and some concern about the effect of the weak JPY on inflation. We continue to believe that inflation is likely to accelerate over the new few months which will help push the BoJ to deliver another rate hike at the July meeting.

- **Indonesia:** May trade figures will be released today. Both exports and imports are forecast to contract with outbound shipments down a modest 0.1% year-over-year and inbound shipments expected to fall roughly 10%YoY. The overall trade surplus meanwhile will likely narrow to almost \$3bn, down from last month's \$3.6bn. A narrower trade and current account surplus suggests less support for the IDR and helps explain the currency's recent struggles.

What to look out for: Indonesia's trade data

- Indonesia trade balance (19 June)
- US MBA mortgage applications (19 June)
- China 5-year loan prime rate (20 June)
- Bank Indonesia decision (20 June)

- BoE decision (20 June)
- US initial jobless claims, building permits and housing starts (20 June)
- Japan CPI inflation (21 June)
- South Korea advance trade data (21 June)
- India PMI services (21 June)
- US existing home sales (21 June)

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