

Asia Morning Bites

Japanese inflation picks up again, prompting thoughts of policy adjustment from the BoJ. Elsewhere, Fed speakers cast doubt on June pause thesis ahead of Powell event later today, and debt ceiling anxiety ebbs



Asia Morning Bites

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Global Macro and Markets

- **Global markets:** Optimism seems to be creeping back into markets, and both the S&P 500 and NASDAQ made decent gains yesterday (0.94% and 1.51% respectively) as Kevin McCarthy indicated that a debt bill could go before the House by next week. Chinese stocks were more mixed. The Hang Seng did gain 0.85%, but the CSI 300 was little changed (-0.1%). US Treasury yields continued to move higher though. And this may be more about rate expectations than debt ceiling worries. There have been a couple of Fed speakers over recent days pouring doubt onto a June pause, Voter Lorie Logan for one, and non-voter James Bullard another. Philip Jefferson seems to be sitting on the fence with his remarks yesterday, and it is looking like June could be a close meeting. Jerome Powell is speaking at an event later today and may shed some more light on the core FOMC view. 2Y US Treasury yields rose 9.8bp to 4.252%, while those on 10Y Treasuries rose 8.2bp to 3.646%. The increase in yields has given the USD a further boost, and EURUSD is now down to 1.0776. Soft Australian labour market data yesterday (a fall in full-time jobs and a rise in the unemployment rate) has helped the AUD to fall to 0.6628. Cable has dropped back to

1.2414 and the JPY is back up to 138.57. Other Asian FX was also softer versus the USD. The CNY has pushed conclusively back above 7.0 to sit at 7.0375 currently. The SGD also lost ground, rising to 1.348.

- **G-7 macro:** Following the big drop in the US Empire Manufacturing survey recently, more attention has been focussed on the Philadelphia Fed business survey for corroboration. And it didn't happen. The Philly Fed survey came in at -10.4, an improvement on the -31.3 reading in April, and better than the consensus had forecast. The G-7 calendar for today is very thin.
- **Japan:** Consumer price inflation accelerated to 3.5% YoY in April (vs 3.2% in March, 3.5% market consensus) due to price increases at the beginning of the fiscal year. On a monthly comparison, goods and services prices rose 0.8% MoM sa and 0.2%, respectively. We believe that inflation will cool down again in May after these one-off price hikes, but a rise in power bills will likely push up the headline inflation again in June. Inflation will probably come down only gradually, and more slowly than the Bank of Japan (BoJ) is expecting. As a result, the BoJ will likely revise up its current inflation forecasts.

Not only are wages rising, but prices of other assets in Japan are also rising. Equity indices recently returned to the pre-bubble era for the first time in nearly 40 years, and housing/rent prices are also rising. We see core inflation staying above 2% throughout 2023. As the BoJ has just begun reviewing its policies, it will still take time for them to raise policy rates, but we see a higher chance of an adjustment to their YCC policy as early as June—anchoring 2Y JGBs instead of 10Y JGBs.

What to look out for: Fed speakers

- Malaysia trade (19 May)
- Fed's Powell and Williams speak at separate events (19 May)

Authors

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

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