

# Asia Morning Bites

Markets to hunker down in Asia ahead of Pelosi's visit



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### Macro outlook

- **Global Markets:** Asian markets will likely adopt a very defensive posture today after it became clear overnight that US House Speaker, Nancy Pelosi, would make what is reported in the FT today as an “ill-conceived visit” to Taiwan. Pelosi is scheduled to meet with Taiwan's political leaders on Wednesday, but she may arrive in Taiwan today. (See the China section below for what we anticipate China's response will be). US stocks overnight were slightly weaker, but probably have not yet responded to this latest news. The USD continued to soften yesterday, though rising tensions in Asia may lift the bid for the USD today. The AUD pulled above 70 cents yesterday, though could find itself under pressure today once the RBA decision is out of the way. Cable continues to recover from earlier weakness ahead of what is expected to be a 50bp rate hike from the Bank of England on Thursday. And the JPY is finding new strength in the post-peak rate-hike world, dropping to 131.53. Asian currencies were mixed on Monday, with the THB massively outperforming the rest of the pack on thoughts of BoT tightening from this month as well as recovering tourism receipts and capital inflows. 2Y US Treasury yields fell 1.4bp to 2.87%, while the 10Y bond yield fell a further 7.6bp to 2.573%. As we noted recently, 2.5% for the 10Y UST makes sense given our Fed funds view for 2023 and 2024. Lower than that would suggest a rethink to a sub-2% Dec 2024 Fed funds rate, or a sub 3% Dec 2023 Fed funds rate.
- **G-7 Macro:** The US July Manufacturing ISM index included glimmers of good news. The

headline index fell slightly less than anticipated to 52.8 from 53.0, but there was a big fall in the prices paid index to 60.0 from 78.5. The employment index remained in contraction territory, but at 49.9, was better than the June figure of 47.3. There is little of note on the G-7 macro calendar today.

- **China:** We expect that China will send warplanes near Taiwan or even over Taiwan before, during and after Pelosi's visit to Taiwan. The US National Security Council spokesman repeated three times that "there is just no reason for this (referring to Pelosi's visit to Taiwan) to escalate". It seems that the US has underestimated or misread President Xi's stance on Taiwan. The determination of Xi on uniting Taiwan with Mainland China is extremely firm. We should see weakness in CNY and TWD over the coming days.
- **Australia:** The Reserve Bank of Australia will announce its latest rate decision at 1230 SGT today, and we concur with the market expectation for a 50bp rise, taking the cash rate target to 1.85%. Governor Lowe delivers the RBA's Monetary Policy Statement on Friday, which could add some detail to the latest decision. We anticipate that rates will rise a further 50bp at the next meeting, before possibly easing to a 25bp pace for the remainder of the year.
- **Korea:** The July CPI inflation rate rose to 6.3%YoY (vs. 6.0% in June), in line with the market consensus. Fresh food and utility inflation rose to 13%YoY and 15.7%, respectively due to bad weather and higher electricity and gas rates. Although the headline hit its highest level since November 1998, underlying price pressures are gradually stabilizing as the monthly uptrend has slowed and the core inflation excluding energy and food stayed at 3.9% for the second month. We think the BoK will pay more attention to the rate of increase in the price index and not the level itself from now on. Also, BoK Governor Rhee yesterday reaffirmed at the National Assembly Committee that future policy rate hikes would be data-dependent and that the usual 25bp pace of increase would be appropriate if inflation remains as the BoK projects. Thus, we expect the Bank of Korea to raise 25bp at its August meeting.

## What to look out for: RBA meeting

- South Korea CPI inflation (2 August)
- RBA cash rate (2 August)
- Singapore PMI (2 August)
- US JOLTS (2 August)
- China Caixin services PMI (3 August)
- Japan Jibun PMI service (3 August)
- US ISM services, durable goods and factory orders (3 August)
- Australia trade balance (4 August)
- US initial jobless claims and trade balance (4 August)
- Philippines CPI inflation (5 August)
- Thailand CPI inflation (5 August)
- Indonesia GDP (5 August)
- RBI policy rate (5 August)
- Singapore retail sales (5 August)
- Taiwan CPI (5 August)
- US non-farm payrolls (5 August)

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