

Asia Morning Bites

Reserve Bank of Australia (RBA) policy meeting later today - the consensus is for no change. Indonesia reports inflation later in the afternoon and the Eurozone reports important credit and inflation data ahead of the ECB later this week



Asia Morning Bites

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Global Macro and Markets

- **Global markets:** The US was not on vacation on Monday, unlike most of the rest of the world, though it might as well have been from a stock market perspective. US stocks had a flattish session and ended virtually unchanged from the previous day's close. It was more lively in US Treasury markets. The yield on the 2Y Treasury rose by 13.4bp to 4.141%. 10Y yields rose 14.6bp to 3.568%. The renewed surge in US yields has dragged EURUSD back down to 1.0971. The AUD was slightly higher at 0.6627. Cable slid lower to 1.2487 and the JPY also weakened, rising to 137.50. Most of the rest of Asia was on vacation yesterday.
- **G-7 macro:** US PCE deflator data on Friday last week was not too badly behaved. The March headline PCE inflation figure dropped to 4.2%YoY from an upward revised 5.1%. There was also an upward revision to the core inflation numbers, which meant that the 0.3% MoM increase in the core index translated into a slight drop in the annual inflation rate to 4.6%YoY from 4.7%. Spending figures were slightly stronger than the consensus, but not materially so. University of Michigan sentiment numbers were fairly flat, though the 5-10Y ahead inflation expectations figure ticked a tenth higher to 3.0%. Manufacturing ISM

numbers out yesterday were stronger than had been expected, with a large rise in the prices paid and employment components, which may have been the undoing of the bond market. Today, we have April CPI data from the Eurozone, which will be pivotal in the ECB's rate decision this week as they choose whether to raise 25bp or 50bp. The consensus expects the headline rate of inflation to edge back up to 7.0%YoY and the core rate to drop only 0.1pp to 5.6%YoY. The US releases March JOLTS labour data.

It is, of course, the Fed this week as well, so please also look at our latest [Central Bank preview note](#).

- **China:** China's manufacturing PMI showed a surprise contraction in April, with the index falling to 49.2 from 51.9, following three straight months of growth since the start of 2023. Looking at the sub-indices, it is clear that the weakening export market has started to affect the domestic market. The feed-through channel will come through lower wages and employment starting from export-related factories to the overall manufacturing sector and then on to the service sector. As a result, we believe that the government will resume subsidies on electric vehicles, which would benefit both the manufacturing and services sector. The government might also push infrastructure construction faster.
- **Australia:** The Reserve Bank of Australia will meet to consider rates policy today, and like most of the consensus, we are not looking for them to hike rates and to leave the cash rate at 3.6%. This follows a further decline in inflation according to the March inflation data released last week. This is not a unanimous call though, about a third of forecasters are looking for a further 25bp hike. So we could see a little further AUD weakness on a no-change decision.
- **South Korea:** Consumer inflation continued to ease further to 3.7% YoY in April (vs 4.2% in March and 3.7% market consensus) mainly due to the high base last year. But there are also a few other reasons for price stabilization. Fresh food prices (3.1%) have stabilized considerably as weather conditions have improved. Rental prices also fell sequentially for the third successive month. The government has decided to extend the fuel tax cut program until August and utility fees have also been put on hold since the January hike. Thus, there are still more upside risks for prices in the near term, but we expect CPI to ease into a 2% range as early as July.
- Yesterday, Korea's April export data came in lower than the market consensus (-14.2% YoY in April vs -13.6% in March and -12.2% market consensus). By export item, except for transportation - cars (40.3%) and vessels (59.2%), other major export items all declined with falling semiconductor exports (-41.0%) the worst performing. With inflation easing and exports/investment worsening, the Bank of Korea will be under pressure to end or reverse the course of tightening. We think the Bank of Korea will maintain its hawkish stance for the time being as core inflation (4.6% in April) is not cooling as fast as the headline rate and some service prices are still on the rise.
- **Indonesia:** Indonesia reports inflation today. April headline inflation is expected to moderate further to 4.4%YoY from 5.0% while core inflation may be steady at 2.9%YoY. Price pressures have faded in the first half of the year, which allowed the central bank to

pause and keep policy rates at 5.75%. If inflation continues to slide and the IDR remains stable, we could see Bank Indonesia bringing forward its rate cut to 3Q to give growth an added boost.

What to look out for: RBA meeting and regional PMI

- Indonesia inflation (2 May)
- RBA policy meeting (2 May)
- Regional PMI reports (2 May)
- US factory orders and durable goods orders (2 May)
- Australia retail sales (3 May)
- Thailand inflation (3 May)
- US ADP employment and MBA mortgage applications (3 May)
- US ISM services (3 May)
- Fed policy decision (4 May)
- Australia trade (4 May)
- China Caixin PMI manufacturing (4 May)
- Hong Kong retail sales (4 May)
- ECB policy decision (4 May)
- US initial jobless claims and trade balance(4 May)
- Philippine inflation (5 May)
- China Caixin PMI services (5 May)

- Indonesia GDP (5 May)
- Singapore retail sales (5 May)
- Taiwan inflation (5 May)
- US non-farm payrolls (5 May)

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

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