

Asia Morning Bites

Nothing is expected on Chinese rates today. Elsewhere, the US Fed's Beige Book suggests the economy is slowing...



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Global Macro and Markets

- **Global markets:** It was another flat day for US equities. After opening down from the previous session, stocks managed to claw their way higher, but ended almost unchanged at the end. Chinese stocks had a poorer day. The Heng Seng Index fell 1.37%, while the CSI 300 dropped 0.9%. US Treasury yields crept higher again yesterday despite the weak Beige Book. The yield on the 2Y note rose 4.7bp while that on the 10Y bond rose just 1.5bp to 3.591%. UK 10Y gilt yields rose 11bp after [higher-than-expected inflation data](#) pushed up expectations for a further 25bp from the Bank of England.

EURUSD dropped as low as 1.0917 at one stage yesterday, though recovered back to 1.0951 to leave it only slightly lower than the previous day. The AUD also lost ground to just above the 67 cent level, while Cable made small gains, helped by the rising rate hike expectations. The JPY rose back to 134.75, as thoughts of any action by incoming BoJ Governor, Ueda, were pared back. Asian FX was weak across the board yesterday. The THB and KRW were at the bottom of the pile, losing 0.55% and 0.54% respectively.

- **G-7 macro:** It was another quiet day for G-7 data. As mentioned, UK markets were pushed about by the disappointingly high inflation print for March, which comes on top of stronger

wages data earlier in the week. The [latest Beige Book from the US Fed](#) showed that the US economy stalled last month, with hiring and price increases slowing and credit tightening. The Fed's Williams sounded a slightly dovish note, saying that inflation was slowing and the labour market was cooling. He added that the run of data would indicate when the Fed could stop hiking. It sounds like he thinks this will be soon, though he indicated that he did support a further hike.

US mortgage applications data was the only other release of note, which registered an 8.8% decline in the week of 14 April. Today we get US March existing home sales, which are expected to come in at a 4.5m annual pace, a slight drop from February. Elsewhere, European trade data for February is released.

- **China:** We expect Chinese banks to leave the Loan Prime Rate on 1-year and 5-year loans unchanged today. This is because the PBOC has left the 7D reverse repo and 1-year medium-term lending facility policy rates unchanged. It is unlikely that the central bank will ease as retail sales rose 10.6%YoY in March. Unless data show a pause in the economic recovery, which is not our base case, the PBoC has little reason to cut policy rates. The central bank could stabilize market interest rates by changing liquidity in the money market via daily market operations. A RRR cut also seems to be quite unlikely as it would inject too much liquidity into the market during the recovery and could fuel inflation later.
- **Japan:** The trade deficit narrowed modestly in March for a second month as imports (7.3% YoY) grew at a slower pace than the previous month (8.3%), mainly due to favourable currency effects and falling commodity prices. The March trade figures were slightly better than market consensus, but the trend of slowing exports has continued. Exports rose 4.3% YoY in March (vs 6.5% in Feb and 2.4% market consensus). By destination, exports to China fell 7.7%YoY while exports to the U.S. and EU rose 9.4% and 5.1% respectively. We expect interregional trade to remain sluggish as poor semiconductor performance will dominate the positive impact of China's reopening, but solid exports to developing markets are likely to continue, especially in the auto sector, at least for this quarter. That said, given the US's IRA act is expected to negatively affect Japanese automakers along with softening demand in the US, we believe that exports will likely turn negative in the coming months.

What to look out for: US initial jobless claims and Fed speakers

- China loan prime rate (20 April)
- Malaysia CPI inflation (20 April)
- Taiwan trade balance (20 April)
- US initial jobless claims and existing home sales (20 April)
- Fed's Waller, Mester, Bowman and Logan speak (21 April)

- Japan CPI inflation and Jibun PMI (21 April)
- South Korea early trade balance (21 April)
- Hong Kong CPI inflation (21 April)

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