

Asia Morning Bites

Global sentiment lifts and Asian assets should benefit as investors lean towards "peak inflation"



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Source: shutterstock

Macro outlook

- **Global Markets:** Monday's stock sell-off didn't last, and US stocks bounced strongly yesterday – the S&P500 rising 2.76% and the NASDAQ rising 3.11%. Better than expected news from Netflix was cited by newswires as providing the lift for tech stocks, while suggestions that peak inflation may now have happened are helping elsewhere (perhaps stoked by some cautiously optimistic comments about the blockade of Ukrainian wheat exports and hope ahead of tomorrow's Nord Stream 1 decision). The equity trading session was fairly one-way. Stocks opened up on the previous day's close and then moved steadily higher. No big gyrations, and on slightly better volumes than we have seen recently too. Equity futures also suggest that this will continue today, so the outlook for Asian markets this morning is looking quite positive. In line with the improved risk sentiment, EURUSD has moved higher, reaching 1.0232 as of writing, ahead of tomorrow's ECB rate decision. The AUD has also recovered back to 69 cents as Governor Lowe hinted that the neutral rate for Australia was about 2.5% (suggesting that the cash rate must rise to at least that, and probably higher). And Cable has re-attained 1.20 helped by some strong labour data on Tuesday. The JPY also made strong gains but has given almost all of these back to sit at 138.19 now, barely changed from yesterday – and maybe weighed by

thoughts of yet another no-change move from the BoJ tomorrow. Most of the Asian FX group made gains against the USD yesterday. Following the AUD, the KRW and SGD made decent gains on the day to reach 1315 and 1.3916 respectively. US Treasury yields continued to push higher though. The 2-Year yield rose to 3.237%, up 6.3bp, while the 10Y UST yield rose only 3.5bp to 3.021%.

- **G-7 Macro:** Evidence that the Fed's tightening is already beginning to weigh on the US economy can be seen in yesterday's housing starts and building permits data, which both declined in MoM terms. US June existing home sales today will add a further glimpse into how the housing/construction industry is faring. Otherwise, UK June inflation is about all that is worth a look at today in the G-7. Headline UK inflation is expected to rise to 9.3% from 9.1%.
- **China:** 1Y and 5Y Loan Prime Rates will be announced today. We expect no change in these interest rates as the economy has started to recover. Keeping these rates unchanged would also stabilise net interest margins of the banking sector, which is helpful for banks that have to offer mortgage payment holidays for mortgagors of uncompleted property projects.

What to look out for: ECB policy meeting

- China prime loan rate (20 July)
- Malaysia trade balance (20 July)
- Taiwan export orders (20 July)
- US existing home sales (20 July)
- Bank Indonesia policy meeting (21 July)
- Bank of Japan policy meeting (21 July)
- ECB policy meeting (21 July)
- US initial jobless claims (21 July)
- Japan CPI inflation (22 July)
- Thailand trade balance (22 July)
- Malaysia CPI inflation (22 July)

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