

# Asia Morning Bites

Covid in Shenzhen, Powell testimony to Senate



## Asia Morning Bites

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### Macro outlook

- **Global markets:** The US returned from their Monday vacation in a better frame of mind and equities delivered a solid bounce on Tuesday. The S&P500 and NASDAQ both finished up about 2.5 per cent, though already doubt seems to be creeping in and US equity futures are signalling some selling pressure at the open today. The better risk sentiment didn't do much to undermine the USD though, and EURUSD remains about 1.0533, close to its rate this time yesterday, though it did look at 1.0580 briefly before falling back. The same holds true in other G10 currencies, with the AUD still at 0.6963, and the GBP only marginally stronger at 1.2271. Not so for the beleaguered JPY though, it soared higher, reaching 136.53. This pace of climb ought to make even the BoJ's Kuroda uncomfortable, so it is possible we will get some verbal intervention before long – not that this seems likely to help beyond a very temporary respite – if that. Other Asian FX was pretty muted yesterday, though the PHP continued to suffer, moving up to 54.265.
- US Treasury yields were slightly higher yesterday, though not much compared to recent trading. The 2Y yield rose 1.8bp, while the 10Y rose 4.5bp to 3.275%. If the equity market flips back into risk-off again today, that should unwind these gains and more. In Fed news,

Thomas Barkin yesterday said the Fed should normalize policy as soon as possible. That sounds like an endorsement for another 75bp rate hike in July. The main event though is Jay Powell at the Senate Banking Committee later today.

**G-7 Macro:** Yesterday's May US existing home sales fell almost as predicted, falling to a 5.41m annual pace. It would be surprising if they didn't fall further as the Fed tightens rates and mortgage yields rise. Today sees the UK release May CPI inflation data, which is expected to tick up to 9.1% from 9.0%. Canadian inflation too should rise to 7.3% from 6.8%. These figures will signal that the rise in the price of global money hasn't peaked, which won't help investor sentiment. There isn't much due elsewhere.

- **Australia:** Minutes from the June meeting of the Reserve Bank of Australia (RBA) published yesterday didn't add much to our understanding of the pace and duration of future rate hikes, save that they clearly have some way to go. However, as the RBA meet monthly, unlike, for example, the Fed, there was a hint that they saw less need for the sort of big hikes that the Fed is now delivering since regular 25bp increments will achieve much the same over time.
- **China:** Covid cases have been found in Shenzhen. But this time, the impact is more on Hong Kong than Shenzhen as the cases found were located at the border with Hong Kong. These cases suggest that the border between Hong Kong and Mainland China will remain closed in the coming months as 1) the number of cases in Hong Kong is rising, and 2) Mainland China will not want to take the risk that Hong Kong's Covid cases could be passed on to major cities in Mainland China. This means Hong Kong's retail businesses will need to survive without visitors from Mainland China. Business ties between Mainland China and Hong Kong could also be affected as the border has been almost closed for far longer than expected.

## What to look out for

- New Zealand trade (22 June)
- Thailand trade (22 June)
- US Mortgage application (22 June)
- South Korea PPI inflation (23 June)
- Japan Jibun PMI (23 June)
- Singapore CPI inflation (23 June)
- Philippines BSP policy rate (23 June)

- Indonesia BI policy rate (23 June)
- Taiwan unemployment rate and industrial production (23 June)
- US initial jobless claims (23 June)
- Japan CPI inflation (24 June)
- Malaysia CPI inflation (24 June)
- Singapore industrial production (24 June)
- US new home sales and Univ of Michigan sentiment (24 June)

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