

Asia Morning Bites

Jay Powell signals possibility of recession down the road but commits to fighting inflation.



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Macro outlook

- **Global:** US Stocks ended basically flat yesterday, which for Jay Powell, testifying in front of the Senate Banking Committee, probably felt like a small victory. The S&P500 and NASDAQ were down 0.13 and 0.15% respectively. That's a lot less than European stocks yesterday, though US equity futures look quite negative, so this may be only a short-lived reprieve from re-pricing in recession risk. EURUSD is slightly higher today, trying first to push down through 1.046 and then briefly above 1.06 before settling back. Neither the USD bulls nor the bears seem able to take the upper hand at the moment, for which we may need a new Fed or macro catalyst. Cable ran the same roller-coaster path as the EUR, though is now more or less unchanged from 24 hours ago. The AUD is providing more direction, dropping to the lower end of 0.69. The AUD is probably more vulnerable to recession anxiety than either the GBP or EUR. The JPY has managed to creep just back under the 136 handle, though probably will regain its upward trajectory before long unless safe-haven buying picks up. The Asian FX pack experienced broad-based weakness against the USD yesterday, and if we see markets returning to a risk-off pattern, that will probably be the direction today too. Bottom of yesterday's pack were the THB, PHP, INR and IDR, though they weren't much weaker than the rest.

There was a large rally in US Treasuries yesterday, again most likely on growing recession fears. 2Y UST yields fell 14bp to 3.056%. UST10 yields fell 11.9bp to 3.156%. At some point, we may start to see longer-dated yields falling more than shorter-dated ones if the recession narrative gains more traction. For now, the 2s10s yield spread remains positive.

Macro-G-7: The key takeaway from Jerome Powell's testimony to the Senate Banking Committee yesterday was that achieving a soft-landing would be "very challenging". That pretty much sums it up. Powell's comments come after a very thought-provoking article by former New York Fed President, Bill Dudley, on Bloomberg yesterday, suggesting that a recession was "inevitable" within the next 18 months. Certain 2Y ahead recession indicators are flagging a 98% chance of recession. Ask me if you want details. It only remains for the equity market to price this now. Later today, Powell again testifies, this time to the House Financial Services Committee. There's not much else on the G-7 calendar today.

- **South Korea:** The KRW has already risen past 1300, but could extend its rise over the near-term, then possibly rise further in 3Q22. Yield inversion between Korea and the US is expected to happen from July. Yield differentials will widen further thereafter, leading to a weakening of the KRW. With the KRW a high beta currency against global growth expectations, recent market anxiety and fears surrounding the Fed's aggressive tightening will be a major driver for KRW moves. Also, the trade balance will likely remain in the red as energy prices continue to climb, putting additional pressure on the KRW. However, the KOSPI valuation is approaching a historic low and foreigner's positions in the equity market have become very light as they have been net sellers over the past six months, thus we think that the cash outflow won't be as large as we saw in the first half of this year.
- **Taiwan:** Industrial production will be released today. We expect the growth rate in May will be similar to that of April, as port logistics partially resume in Mainland China, reducing pressure on the lack of raw materials and parts for Taiwan production.
- **Singapore:** The May inflation report is scheduled for release later in the day. Prices are expected to rise 5.5% from a year ago, while core inflation likely accelerated to 3.6%. Faster inflation prompted authorities to unload a fiscal package directed to vulnerable households recently highlighting the toll higher prices are taking on overall economic activity. Accelerating inflation will likely cap recent retail sales momentum and moderate 2Q GDP.
- **Indonesia:** Bank Indonesia (BI) holds a policy meeting today and market participants expect the central bank to keep rates unchanged. BI Governor, Perry Warjiyo, expressed his preference to hold off on rate hikes until inflation becomes a problem. Indonesia's core inflation is currently still within target at 2.6%, and we could see BI hike rates when core inflation accelerates further. IDR will likely face depreciation pressure in the near term as BI stays dovish.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) meets today to discuss monetary policy. Market consensus points to a 25 bps increase after incoming BSP Governor Medalla signalled a preference for only a modest hike. The PHP has come under substantial pressure in recent sessions with BSP staying dovish despite hawkish moves by the Fed. A 25bp hike will likely translate to increased pressure on the PHP in the near term with PHP falling to multi-year lows.

- Japan: PMI indices will be released 9:30 am local time. We think the service PMI will continue to improve on the back of reopening and government support programs while the manufacturing PMI should increase as China's lockdowns softened and orders data remained healthy. (By the time we publish- actual data will be released)

What to look out for: US sentiment indicators and regional central bank decisions

- 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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