

## Asia Morning Bites

Japanese core inflation excluding food and energy edges higher in May - tees up the Bank of Japan for a July tweak to policy



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### Global Macro and Markets

- **Global markets:** After several days of decline, US stocks turned around on Thursday, and equity futures indicate that they may have a little further to go today. The S&P 500 rose 0.37%, while the NASDAQ rose 0.95%. China was out for Dragon Boat Day and will be out today too. US Treasury yields went higher again. The Yield on both the 2Y note and the 10Y bond rose 7.6bp, taking 10Y yields to 3.795%. 10Y UK Gilt yields fell 3.8bp after the larger-than-expected Bank of England hike. EURUSD pushed above 1.10 yesterday, despite the rise in US yields, but it could not hold on to its gains and has retreated back to 1.0956 – not much changed from 24 hours ago. G-10 currencies including the AUD and JPY lost ground to the USD, but GBP was steadier, helped by higher rates. Most Asian currencies weakened against the USD yesterday. The THB rose to 35.075, and the SGD rose to 1.3447. USDCNH has risen to 7.1957 and topped 7.20 overnight.
- **G-7 macro:** There were further hawkish comments from Jerome Powell overnight, who said that the US may need one or two more rate hikes. Barkin also indicated that he was happy to see rates go higher. The main macro release from the US for the day was existing home sales. Lack of supply seems to be helping house prices to remain supported, as [James Knightley writes here](#). Initial jobless claims held on to the recent highs at 264K, though

continuing claims drifted a little lower. Not quite a smoking gun for the labour market, but it is becoming a little more interesting. The Bank of England's 50bp hike took markets by surprise. [James Smith and Chris Turner write about it here](#). James notes, "*We're tempted to say that today's 50bp move won't become a new trend, but two further 25bp hikes seem like the most likely route after today's meeting*". Today is another quiet day for macro releases, with nothing of note from the US and only retail sales from the UK to look at.

- **Japan:** May inflation data came out slightly higher than expected. The headline inflation rate was 3.2% YoY in May (vs 3.5% in April, 3.2% market consensus) but core (3.2%) and "core-core" (4.3%) inflation beat market expectations. Inflation excluding food and energy even rose from 4.1% in April. The headline CPI index was unchanged month-on-month, but goods prices fell 0.1% MoM sa, while service prices rose 0.1%. Housing, transportation, telecommunications, and entertainment prices continued to rise, while utilities fell again. We think there are signs of inflationary pressure building up on the supply side, but it is certainly not strong enough for the BoJ to bring about immediate tightening.

Looking ahead, the current energy subsidy program will end in September and some power companies will begin to raise electricity fees again. Thus, we see headline inflation staying above 2% for a considerable time. We expect June Tokyo inflation, released next week, will also pick up again.

We think that the BoJ will upgrade its inflation outlook in July and a yield curve control (YCC) tweak is still possible despite the dovish comments from several board members. They will probably justify their action by saying that a YCC tweak is not a tightening, but instead, that it is done to improve market functionality. Another reason that we think a July tweak is possible is that a shift in YCC may need to come as a surprise to avoid a large bond selloff.

- **Singapore:** May inflation is set for release today. The market consensus points to a slight softening in inflation with core and headline inflation slipping to 4.7%YoY and 5.4%YoY, respectively. Continued robust domestic demand is preventing price pressures from dissipating quickly. Despite the dip in inflation, the MAS will likely be on notice monitoring price developments with core inflation still well above target.

## What to look out for: Fed speakers

- Singapore CPI inflation (23 June)
- Thailand trade balance (23 June)
- Fed's Bullard and Mester speak (23 June)

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