Asia Morning Bites

The Bank of Korea meets today to discuss policy. Singapore will also release inflation data and Taiwan will report industrial production numbers

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Global Macro and Markets

- **Global Markets:** US Treasury yields rose slightly on Wednesday in response to some more hawkish views expressed in the Fed minutes from the last FOMC meeting. 2Y UST yields rose by 4 basis points, though 10Y yields rose just 1bp. Given the content of those minutes, this seems an oddly inadequate response. EURUSD has fallen to the lower end of 1.08, and G-10 currencies are also mostly weaker against the USD, though the GBP has held up better than most possibly as news of a 4 July election was announced. The opposition Labour Party has a substantial lead in opinion polls. Asian FX hasn't done too much over the last 24 hours. Singapore returns from a day's holiday today. The PHP has made slight gains, but otherwise, there is not much to report. US stocks lost ground yesterday. Both the S&P 500 and NASDAQ dropped, though only by 0.27% and 0.18% respectively and US equity futures suggest a positive open today. Chinese stocks were a bit mixed. The Hang Seng was down 0.13% but the CSI 300 rose 0.23%.
- **G-7 Macro:** The Fed minutes from the last meeting offer a slightly different take on the outlook than that taken by markets in its immediate aftermath. One of the key takeaways from that meeting was that rate hikes were not being considered. But the minutes showed

that various" officials were, in fact, willing to raise rates if needed. There was also more consideration given to whether or not the current Fed funds rate was as restrictive as had been supposed, with many" officials expressing uncertainty. So it looks like a higher-for-longer view seems warranted unless the data changes, and we shouldn't be too dismissive of upside rate risks, even if this is not our core view. In other Fed-related news, Jerome Powell now knows that he will not be re-appointed as Fed chair if Trump wins the upcoming US Presidential Election. Preliminary May PMI numbers are on the calendar today across the G-7.

- **South Korea:** The Bank of Korea (BoK) holds its monetary policy decision meeting today and publishes its quarterly outlook report. The GDP and CPI forecasts are likely to be revised up in this report. We expect today's decision to be unanimous, and given the stubborn inflation so far and the acceleration in pipeline inflation, the overall tone should remain hawkish. However, we still need to see how the dove-hawk spectrum has changed with the recent change of two board members and how many members are open to a cut in three months' time. We expect the first 25bp cut to come in October, followed by another 25bp cut in 1Q25.
- **Japan**: The Bank of Japan (BoJ) will conduct its regular bond purchase operations today. After the 10Y JGB yield hit 1% yesterday for the first time since 2013, the BoJ is unlikely to reduce the purchase amount at today's operations. There has been some market speculation that the BoJ will announce updated JGB purchases at its June meeting, but we think that the BoJ won't let the yield rise too fast, so they will take advantage of UST moves lower later this year.
- Japan's manufacturing PMI rose to 50.5 in May (vs 49.6 in April), likely driven by a continued recovery in the auto and semiconductor sectors. The service PMI edged down to 53.6 in May (vs 54.3 in April), but remain well above neutral. With the employment sub-index continuing to rise, the labour market is likely to remain tight in the near future.
- **Taiwan:** April's industrial production data for Taiwan will be published this afternoon. Markets are looking for a strong rebound in the YoY growth rate from around 4% last month to double-digit growth of 11% YoY which would mark the highest level since 2021. However, there is reason to temper optimism as this strength will primarily reflect a favourable base effect, where sharp drops in electronics and rubber production led to negative headline growth of -22.6% YoY in April 2023. Given the recent normalisation, we expect that those sectors will see a rebound and boost headline growth.
- **Singapore:** April inflation is set for release today. Headline inflation is expected to hold at 2.7% year-over-year while core inflation could stay above 3% YoY. Price pressures have been receding with both measures of inflation trending lower. Core inflation however remains well-above the MAS' target of "about 2% YoY" which suggests that the MAS may only consider adjustments at their last meeting for the year in October. Meanwhile, 1Q24 GDP revisions came in slightly higher than expected at 2.7%YoY due to better construction, wholesale and retail trade numbers. There was no change from the initial published estimate. Singapore's Ministry of Trade and Industry maintained their 1-3%YoY growth forecast for 2024.

What to look out for: The BoK meeting and Singapore's inflation

- BoK policy meeting (23 May)

- Japan Judo PMI (23 May)
- Singapore CPI inflation and GDP revision (23 May)
- US initial jobless claims and new homes sales (23 May)
- Japan CPI inflation (24 May)
- Singapore industrial production (24 May)
- US durable goods and University of Michigan sentiment (24 May)

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