

Asia Morning Bites

Biden's Taiwan comments stir markets - China launches big stimulus package



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Macro outlook

- **Global:** It was a good day for US stocks yesterday, but the earnings/profits warning from Snapchat has set US equity futures turning sharply lower, so it could be a mixed start in Asia after the initial catch-up. President Biden's comments on the possibility of military support for Taiwan only add to the volatile backdrop. The ECB's Christine Lagarde has been credited for the EURUSD rise to 1.0684 from about 1.0560 yesterday. But unless you can also credit her with gains made by the AUD, and RMB, then this looks more like a generalised dollar weakness story. Indeed, the Lagarde comments, which seem to confirm rate hikes starting from the ECB in July, have been criticised in some circles as somewhat inflexible. Sure, the ECB does not want to hike rates until after they have stopped their asset purchases (though actually, why not?). But then, why not stop the asset purchases sooner? Each month of delay means more stimulus added against this the current inflationary backdrop. Tapering is still an economic stimulus, after all, just added at a slower pace. You could (and some commentators already do) make the case that this is way too slow policy-making – and not a great excuse to load up on EUR. China's RMB move back to 6.64 has helped lift most of the Asia FX pack (even the TWD), and was helped along by a raft of stimulus measures (see below).

It's a pretty quiet day for G-7 data, with PMIs across the globe the main focus. Rising prices are likely to be weighing on the service sectors of many economies, but as Australia's PMIs showed today, the manufacturing sector may not be immune either. The US releases data on new home sales later – maybe worth a look as a bellwether for the impact of higher rates on the US economy.

- **China:** The government's regular meeting announced a raft of fiscal measures equivalent to 3.76% of GDP. These measures include new tax rebates and full-year tax rebates announced previously, supportive measures for airlines, railways, automobiles and infrastructure. Even if you do not count the full-year tax rebates, the additional fiscal support amounts to 0.8% of GDP (i.e. excluding tax rebates and infrastructure spending already announced). As Shanghai has not completely unwound its lockdown measures, and Beijing has tightened distancing measures in some districts, we expect that there could be more fiscal stimulus as the government seems to want to avoid monetary easing, on concern that the leverage ratio for the whole economy will go up.
- **Indonesia:** Bank Indonesia (BI) meets to discuss policy today. BI may keep policy rates unchanged as BI Governor Warjiyo previously hinted at a delay before tightening to help shore up the economic growth momentum. We don't, however, rule out a surprise rate hike, though the consensus points to no change. Core inflation was cited as Warjiyo's trigger point and the latest reading showed it reaching 2.6%YoY.
- **Korea:** The consumer sentiment index in May fell to 102.6 (vs 103.8 in April) the first fall in three months. The details are disappointing as four of the six major sub-indices were down while the outlooks for employment and spending both moved up. We interpret this as a gradual waning of the initial re-opening effect, with consumers now more concerned about high interest rates and inflation. Meanwhile, 12-month Inflation expectations rose to 3.3% (vs 3.1% in April), the highest since October 2012. This afternoon, 1Q22 household credit data will be released, which is worth a watch as the Bank of Korea has been closely watching how its rate hike actions affect household credit growth. Concern has been expressed several times about the rapid growth of household leverage.
- **Japan:** The Jibun Bank Composite PMI for May edged up to 51.4 (vs 51.1 in April) on the back of solid service-sector PMI gains. The re-opening effect continued to boost services, yet the ongoing war in Ukraine and higher energy prices put pressure on manufacturing activity. The services PMI rose for the second month running, reaching 51.7 (vs 50.7 in April), the highest reading since Dec 2021. Meanwhile, the manufacturing PMI fell slightly to 53.2 (vs 53.5 in April), remaining in the expansion zone for the third straight month. However, both the output and new orders indices fell.

What to look out for: FOMC minutes

- Japan Jibun PMI (24 May)
- South Korea consumer confidence (24 May)
- Bank Indonesia policy meeting (24 May)

- US new home sales (24 May)
- Singapore 1Q GDP final (25 May)
- RBNZ policy meeting (25 May)
- Malaysia CPI inflation (25 May)
- US durable goods orders (25 May)
- FOMC meeting minutes (26 May)
- Singapore industrial production (26 May)
- Hong Kong trade balance (26 May)
- US initial jobless claims, GDP, pending home sales (26 May)
- Bank of Korea policy meeting (26 May)
- Tokyo CPI inflation (27 May)
- Australia retail sales (27 May)
- China industrial profits (27 May)
- Taiwan GDP (27 May)
- US Michigan sentiment (27 May)

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

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