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Japan's headline inflation holds up better than expected, Singapore industrial production data due



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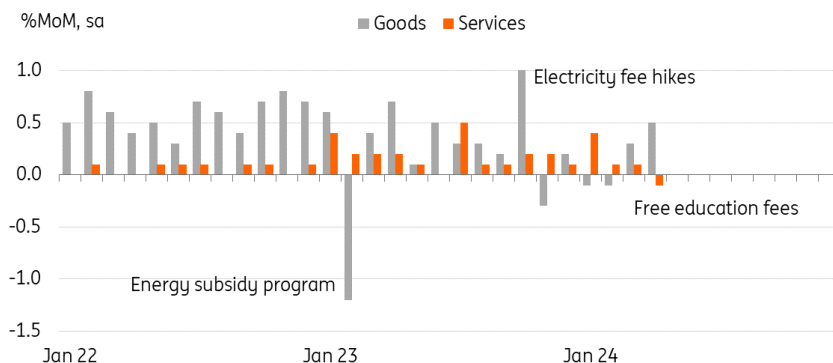
Global Macro and Markets

- **Global Markets:** Stronger US PMIs helped to push up US Treasury yields following the somewhat modest response to the previous day's FOMC minutes. 2Y yields rose 6.6 basis points, while the 10Y yield rose 5.5 basis points to 4.477%. Japan's 10Y JGB yield remains just below 1.0% at 0.997%. A lack of JGB sellers at one of the BoJ's regular buying operations yesterday may encourage thoughts of a reduction in its next buying operation on 31 May. EURUSD is slightly lower today than this time yesterday, though it did rally mid-session before softening again. This has helped pull the AUD down to just above the 66-cent level. Cable and the JPY also lost ground to the USD on Thursday. Asian FX was also mostly weaker on Thursday, led by the THB which lost 0.57% taking USDTHB to 36.525. Losses elsewhere were modest. The TWD made small gains, despite the "punishment drills" being conducted by Mainland China in the Taiwan Straits. The drills are scheduled for three days, but there is a chance they are extended. With bond yields rising again, it is not surprising to see equities struggling. The S&P 500 fell 0.74% yesterday, while the NASDAQ fell 0.39%. Chinese stocks also did poorly. The Hang Seng fell 1.7% and the CSI 300 was down 1.16%.
- **G-7 Macro:** The S&P PMIs for the US staged a comeback after some weak recent

readings. The manufacturing PMI pushed above the 50 breakeven level to 50.9, while the service sector PMI rose to 54.8 from the 51.3 reading in April. There were also gains in the prices component of the surveys. The Fed's Bostic said that monetary policy was taking longer than normal to slow growth. Today, we have durable goods orders and the University of Michigan consumer sentiment survey. Last month, this survey showed an uptick in inflation expectations. This has been echoed in other surveys as well as market measures of inflation expectations, so is probably the main thing to watch for today.

- **Japan:** Consumer inflation results were broadly in line with the market consensus. Headline inflation growth moderated slightly to 2.5% YoY in April but was slightly higher than the market consensus (vs 2.7% in March, 2.4% market consensus), while core inflation excluding fresh food and core-core inflation excluding fresh food and energy eased to 2.2% (vs 2.6% in March, 2.2% market consensus) and 2.4% (2.9% in March, 2.4% market consensus), respectively.
- Last year's high base was the main reason for the moderation, but the monthly run-rate rose steadily by 0.2% MoM for a second month, showing that underlying inflationary pressures are still alive. Goods prices surged by 0.5% in April, mainly due to a sharp increase in fresh food prices. Service prices went down 0.1%, but this was probably due to a one-off fall in education fees. Other key service prices continued to rise.
- We expect consumer inflation to reaccelerate in May on higher utility prices, which will be confirmed by Tokyo's inflation data due next Friday. A choppy inflation path was expected due to various government programmes, so the temporary slowdown won't change the BoJ's policy normalisation stance. We believe that the BoJ will leave its stance unchanged at its June meeting as they would like to confirm the turnaround in economic growth, particularly in private spending and wage growth, that may be seen in July.
- **Singapore:** April industrial production (IP) figures will be out today. Singapore's IP will likely see another month in contraction with the market consensus showing a dip of 0.5% year-over-year. Industrial production has tracked the direction of non-oil domestic exports, which has been challenged by still-soft global demand. We can expect IP to remain subdued until we see a turn in NODX.

Japan's service inflation moderated due to a one-off education fee decline



Source: CEIC

What to look out for:

- Japan CPI inflation (24 May)
- Singapore industrial production (24 May)
- Fed's Waller speaks (24 May)
- US durable goods and University of Michigan sentiment (24 May)

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