Asia Morning Bites

Bank of Korea and Bank Indonesia have key policy decisions today. Meanwhile, rate hike expectations have risen in the US after the Fed minutes, and debt ceiling talks continue, but room for manoeuvre is limited - complacency is not advised

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Global Macro and Markets

- **Global markets:** Despite signs that the debt ceiling talks are inching forward, equity markets lost ground again yesterday. The S&P 500 fell 0.73%, while the NASDAQ fell 0.61%. Chinese stocks were also down again, with the CSI 300 dropping 1.38% and Hang Seng index falling 1.62%. Both indices are down year to date (-0.32% and 3.36% respectively). There was another very large lurch higher for US Treasury yields. 2Y yields shot up 11.1bp to 4.376%, probably driven higher by the Fed minute's suggestion that the June meeting may not represent the peak in rates even if the Fed does pause. 10Y yields added another 5bp taking them to 3.742%. That has helped drag EURUSD back down to 1.0754 and the AUD all the way down to 0.6543. Cable is back down to 1.2367, and the JPY has weakened back to 139.32. Most of the Asian FX pack lost ground to the USD yesterday, and there is probably more catch-up of the G-10 currencies to go today.
- **G-7 macro:** Kevin McCarthy yesterday again expressed optimism that a debt deal could be achieved in time to avoid a default. He and President Biden met for four hours. More talks

are expected. The bigger story on Wednesday came from the Fed minutes of the last meeting, which showed Fed officials leaning towards a pause at the June meeting, but were keeping the door well and truly open to further hikes after that. We get the second reading on the US 1Q23 GDP data later today, which is not expected to deviate materially from the 1.1% QoQ annualized figure initially released. UK inflation for April came in at 8.7%YoY, down from the March reading of 10.1%, but much higher than had been expected. James Smith writes about what this means for the Bank of England (more hikes obviously!). And Germany's Ifo survey also disappointed, with the expectations index dropping after 6 months of improvement.

- **South Korea:** The Bank of Korea (BoK) will hold a policy decision meeting this morning. We expect them to hold rates steady as headline inflation (as well as inflation expectations) has now slowed for several months. Also, producer price inflation fell to 1.6% YoY in April (vs 3.3% in March), indicating that inflation will likely continue to slow. However, hikes in utility and some service charges are in the pipeline, with core inflation excluding food and energy remaining at 4%. Consequently, the BoK will not be complacent about the recent slowdown in headline inflation and they will probably maintain their hawkish stance. We believe that sluggish exports and domestic investment will eventually change the direction of the BoK's policy at the end of the year as a negative output gap will weigh more heavily on inflation. In particular, we see that the downside risks to housing and construction are significant. For more detail on this, please see our note "Strong headwinds ahead for South Korea's housing market"
- **Indonesia:** Bank Indonesia (BI) decides on policy today. BI is widely expected to retain policy rates at 5.75% even as inflation moderates, to ensure FX stability. The IDR has come under some pressure lately on renewed anxiety over the US debt ceiling. We expect BI to maintain its current stance in the near term.

What to expect: BI and BoK meetings

- Singapore 1Q GDP final (25 May)
- Bank Indonesia policy meeting (25 May)
- Bank of Korea policy meeting (25 May)
- US initial jobless claims, core PCE personal consumption, pending home sales (25 May)
- Japan Tokyo CPI inflation (26 May)
- Australia retail sales (26 May)
- Malaysia CPI inflation (26 May)

- Singapore industrial production (26 May)
- Taiwan GDP (26 May)
- US personal spending, durable goods orders and Univ of Michigan sentiment (26 May)

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