

Asia Morning Bites

BoJ policy decision today. Singapore releases industrial production data. US core PCE inflation tonight



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Global markets and macro

- **Global Markets:** Sticky prices indicated in the first quarter GDP deflator and PCE price numbers yesterday have pushed US Treasury yields higher, even though the GDP figure was a lot softer than expected. 2Y yields rose 7.1 basis points to 4.998%, and 10Y yields rose 6.2bp to 4.704%, their highest since November 2023. EURUSD dropped sharply on the data but recovered all those losses and is sitting at just over 1.07 now, slightly higher than yesterday at the same time. The AUD followed a similar path and has also made gains overall, rising to 0.6524. Cable also rose, but the JPY remains soft at 155.61 ahead of today's Bank of Japan meeting. The PHP and KRW propped up the bottom of the performance table for Asian FX over the last 24 hours, both losing ground against the USD. The CNY strengthened to 7.2399 and there were gains from the SGD and VND. US stocks did not like the combination of weaker growth and higher prices, and both the S&P 500 and NASDAQ dropped about half a per cent. Chinese stocks were firmer yesterday.
- **G-7 Macro:** The headline 1Q24 GDP figure for the US was a lot softer than expected, rising at a 1.6% annualised pace, but the GDP price index rose from a 1.6% annualised pace in 4Q23 to 3.7% in 1Q24, while the core PCE price index also rose at a 3.7% pace, up from 2.0% the previous quarter. Backing out tonight's monthly figures from these quarterly data shows

that we should expect a 0.5% MoM increase in core PCE, and the core PCE inflation rate to rise to 2.9% from 2.8%. The market had been looking for a small decline prior to this. [Here is our view from New York](#). Yesterday's jobless claims also fell. Fed rate cuts any time soon are looking a more and more distant prospect.

- **Japan:** Tokyo consumer prices eased sharply to 1.8% YoY in April from 2.6% in March (vs 2.5% market consensus). We had expected inflation to slow to 2.2%, mainly due to last year's high base, but the decline was larger than we had thought. The decline was mostly concentrated in education, which dropped to -8.8% YoY in April from 1.9% in March due to the education subsidy programme from the local Tokyo government. Looking at the monthly comparison, goods prices rose 0.3% MoM while service prices fell -0.9%. On an item basis, apart from medical care and education, all other major item prices went up. Today's sharp deceleration in inflation was distorted by the local government's programme and we saw modest inflationary pressures remain alive, so cooler inflation should have only a limited impact on the BoJ's policy decision today.

As for today's BoJ meeting, markets are largely expecting the BoJ to hold steady, but the focus should be on how the recent weakness in JPY would affect the policy decision and also what the BoJ will project about its future inflation and growth. We expect the inflation outlook for FY24 and FY25 to be revised up to 2.6% and 2.1% respectively and the forecast for FY26 to be 2.0%, suggesting sustained inflation.

- **Singapore:** March industrial production (IP) is set for release today. We could see IP struggle with both the YoY and MoM figures forecast to contract, tracking soft trade data. This likely contributed to the lower-than-expected recent GDP report.

What to look out for: BoJ and Singapore IP

- Japan Tokyo CPI and BoJ (26 April)
- Australia PPI (26 April)
- Singapore industrial production (26 April)
- US personal spending, Univ of Michigan sentiment and PCE core (26 April)

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