

Asia Morning Bites

All eyes on the FOMC decision later tonight, Australia 2Q22 CPI inflation



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Macro outlook

- **Global markets:** The equity market returned to a more bearish slant on Tuesday after Monday's flatlining, with the S&P500 dropping 1.15% and the NASDAQ losing 1.87% from the previous day. [Today's FOMC meeting is widely anticipated to deliver a 75bp rate hike](#), but the message about how much tightening may come thereafter, how quickly and for how long still poses challenges to risk assets that investors are seemingly unwilling to leave on the table ahead of the meeting. EURUSD fell back to 1.0131 from about 1.025 yesterday and was no doubt also helped lower by the cut in Russian Nord Stream gas supplies to Europe to only 20% of capacity – raising the prospects of European recession. The AUD in contrast was much steadier, remaining at about 0.6949, and Cable recovered from a dive to just over 1.196 to settle at a little over 1.20. The JPY was also weaker on the day, rising to 136.96, and indicating that this was not just a risk aversion move. Asian currencies were mainly slightly weaker against the USD, the one exception being the PHP, which was helped by rising rate hike expectations from the BSP Governor (see more below). The KRW also gained slightly, [helped by an above-consensus 2Q22 GDP print](#).

Bond markets were mixed, with yields in Europe sharply down on the negative gas supply news, while US 2Y bond yields rose 4.3bp to 3.053%, and 10Y US Treasury yields rose 1.1bp

to 2.807%

- **G-7 Macro:** Yesterday, US Conference Board consumer confidence dropped again, and is approaching its pandemic lows, while June new home sales fell 8.1%MoM to a 590,000 annual rate, down from 642,000 in May. The April 2020 low for home sales was 582,000, against a peak of more than a million in August 2020. US June trade data and durable goods orders will keep the market ticking over until the FOMC announcement, which comes at 2am tomorrow Singapore time. Tomorrow also delivers 2Q22 GDP, which the FOMC should know in advance of tonight/tomorrow's decision.
- **Philippines:** The PHP outperformed regional peers on Tuesday, enjoying the sharpest single-day correction in 8 years. Comments from BSP Governor, Medalla solidified further tightening from the central bank at the 18 August policy meeting. The PHP will likely move sideways ahead of the Fed meeting as investors look for cues from tonight's decision.
- **Korea:** The consumer sentiment index in July plunged to 86 (vs 96.4 in June), the biggest monthly drop since March 2020. Consumers are most concerned about the future economic situation. This sharper-than-expected worsening of sentiment raises concerns about a sudden drop in household spending in the second half of the year. Meanwhile, inflation expectations posted another big jump to 4.7% (vs 3.9% in June). The BOK made their 50bp hike decision midway through the survey period, so this month's result may not yet fully capture the effect of that hike. At the same time, expectations for home prices have declined for three consecutive months, a sign that the service-sector CPI is likely to stabilize over the next few months as rentals account for the largest weight of services in the CPI basket. The outlook for this quarter is cloudy, but with better-than-expected 2Q22 GDP and based on the stronger 2QGDP and high inflation expectations, we expect the BoK to deliver a 25bp hike at its August meeting.
- **China:** US President Biden and China's President Xi will talk to each other on Thursday. But the media reports that Biden has not made up his mind about whether tariffs will be on the agenda. The market may be upset if the US does not lift some of the tariffs. However, from an economic angle, if the US takes out some tariffs but then imposes extra export controls on technology items, net trade between the two economies could actually be worse than if it kept the situation the same. Taiwan will apparently also be one of the topics discussed.
- **Australia:** 2Q22 CPI inflation out shortly will have a direct bearing on how much tightening the RBA does at next week's rate meeting. A further 50bp rate hike definitely is on the agenda and priced in already. A much stronger figure than the 1.9% QoQ consensus expectation taking inflation well above 6% could see 75bp being considered by markets.

What to look out for: Fed meeting

- China industrial profits (27 July)
- Australia CPI (27 July)
- Thailand trade balance (27 July)

- US Durable goods orders (27 July)
- FOMC decision (28 July)
- Australia retail sales (28 July)
- US 2Q GDP and initial jobless claims (28 July)
- South Korea industrial production (29 July)
- Tokyo CPI inflation (29 July)
- Japan retail sales and labor data (29 July)
- Taiwan GDP (29 July)
- US personal spending, core PCE, Univ of Michigan sentiment (29 July)

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