

Asia Morning Bites 28 April 2022

Bond yields reverse the previous day's dip while attention shifts to today's BoJ meeting.



Asia Morning Bites

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Macro outlook

- **Global:** Stocks had a better day yesterday, with US tech stocks taking some support from Meta, which got an uplift from better Facebook users than expected. The NASDAQ ended almost flat on the day, and the S&P was similar. FX markets continued to move in the USD's favour, with EURUSD down to 1.0550 and eyeing 1.05. The AUD is still under some pressure, despite yesterday's much higher than expected CPI numbers and revised expectations for [sooner and faster rate hikes from the Reserve Bank of Australia](#). The CNY is consolidating at the 6.55-6.56 level, and the JPY is creeping higher again ahead of today's BoJ meeting (see below). But it is the KRW that grabs most of the attention in Asian FX space, gapping higher yesterday to 1265. US treasury yields are all over the place. After big falls in yield yesterday, those moves were largely reversed yesterday. UST2 yields rose 8.1bp, and UST10 yields rose 11.1bp to 2.83%. Where this goes next is anyone's guess.
- 1Q22 US advance GDP is released in the US later today. Annualised QoQ GDP is expected to come in at 1.0% (ING f 1.3%) - this looks weak, but is mostly the effect of inventory drawdown and net trade drags, while consumer spending and business investment should be solid.

- **Japan:** The Bank of Japan is not going to change its monetary policy today in our view. But the market will pay attention to two things; Firstly, BoJ Governor Kuroda's assessment of yen weakness and its impact on the economy, and secondly, its willingness to keep its 10-year JGB yield target at 0%. While there is market speculation that the forward guidance may change, we believe it is still too early for the BoJ to send such a signal. This is mainly because downside risks to growth are rising while inflation expectation still remains tame. But, we will listen carefully to what Kuroda has to say later today.

Japan also released data already this morning. March Industrial production slowed to 0.3%MoM sa (vs 2.0% in February) partially due to earthquake-driven factory shutdowns in the early part of the month. But retail sales rebounded sharply to 2.0%MoM sa (vs -0.9% in February), which beat the market consensus of 1.0%. Social distancing restrictions were relaxed during the month, which probably boosted domestic consumption. We think that Japan's GDP contracted in 1Q22 but expect a recovery in the current quarter supported by better domestic consumption and service activities.

- **Taiwan:** 1Q22 GDP growth is expected to slow (ING f 3.0%YoY down from 4.86% in 4Q21) due to a mixed bag of reasons, including high base effects, job losses and supply chain disruptions. Looking forward, hot weather increases the risk of power shortages. A repeat of last summer's power shortages and therefore suspension of factory operations is possible.
- **China:** Caixin PMI will be released tomorrow, we expect a reading around 45, reflecting lockdowns and disruption of factory operations due to logistics issues in and out of Shanghai
- **Indonesia:** Indonesian authorities backtracked on a previous announcement regarding the palm oil export ban, now indicating that crude palm oil would also be included in the list of banned items. This development will likely impact global food prices as palm oil is used as cooking oil and in food preparation.

Meanwhile, S&P upgraded Indonesia's outlook from negative to stable citing the improvement in the fiscal position. Indonesia was able to lower the deficit-to-GDP ratio to 4.7% ahead of schedule in 2021 and is in a comfortable position to lower this to 3% by next year.

What to look out for: Bank of Japan meeting and geopolitical developments

- Japan retail sales, industrial production and BoJ meeting (28 April)
- Taiwan GDP (28 April)
- Hong Kong trade (28 April)
- US initial jobless claims and 1Q GDP (28 April)
- Korea industrial production (29 April)
- Australia PPI inflation (29 April)
- US core PCE and Michigan consumer sentiment (29 April)

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