

Asia Morning Bites

US sentiment takes a nose-dive as consumers get jittery, though China quarantine relaxation could bolster Asia



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Macro outlook

- **Global markets:** The positive risk sentiment that marked the end of last week didn't last long into this week. US equities dropped sharply; the NASDAQ was down just under 3% and the S&P500 was down 2%. One trigger for this may have been the very weak consumer confidence figures from the US Conference Board. The expectations component of this survey made for particularly grisly reading. It is not quite at global financial crisis levels, unlike the University of Michigan survey, but it is getting there. A soft Richmond Fed manufacturing index and some slightly weaker than expected house price figures probably didn't help either. US equity futures are showing a very small positive gain currently, essentially a "no direction" signal. The abrupt about-face in sentiment has lifted the USD, taking EURUSD back down to 1.0522. Cable slid to 1.2187 and the AUD is knocking on a breach of the 0.69 level on the downside once again. The JPY has not benefited from this change in sentiment, seemingly losing its safe-haven appeal, and has pushed up above 136, while the 10Y JGB has edged a little higher, but still remains below 0.25%. US Treasury yields haven't been much affected by this latest equity swing. 2Y yields are little changed at 3.11%, while yields on the 10Y bond are down less than 3bp at 3.172%. Asian FX was mainly in the red yesterday, led by the INR and JPY. The THB bucked the trend with a small gain,

buoyed by the news that China would cut its quarantine period for international visitors. Chinese tourists traditionally make up the majority of tourism flows for Thailand (see also below).

G-7 Macro: Preliminary June German CPI inflation today is not expected to change much from the May 8.7% harmonised inflation reading. Yesterday, ECB President, Christine Lagarde, indicated that the European central bank would be prepared to step up the pace of tightening due to start in July if inflation continued to worsen. So there is some jeopardy in these numbers. Final 1Q22 GDP from the US won't be of much interest to markets.

- **Australia:** May retail sales due at 0930SGT are expected to slow to a 0.4% month-on-month rate of growth, after the 0.9% gain in April. Cashed-up consumers back then powered spending growth, but price rises since then may have dented consumer spending power and confidence.
- **Korea:** The Bank of Korea's (BoK's) consumer sentiment index (CSI) fell sharply to 96.4 in June (vs 102.6 in May), falling below the long-term average of 100 for the first time since Feb 2021. All six sub-components were down. Both the current assessment and expectations on domestic economic situation indices dropped significantly by 14pt and 15pt respectively. We believe that the recent sharp drop in the KOSPI and higher mortgage/lending rates are probably hurting consumer confidence. Meanwhile, inflation expectations reached 3.9% in June (vs 3.3% in May), which could be a bigger concern for the BoK. The BoK has expressed concern about self-fulfilling inflation increases, in which expected inflation rises first then actual inflation rises accordingly. Today's weak CSI data will further increase the likelihood that the Bank of Korea hikes by 50bp in July, but at the same time, will also add to concerns over an economic slowdown.
- **Japan:** Japan's retail sales rose 3.6% YoY in May (vs 4.0% market consensus), but the previous month's data was revised up to 3.1% (vs 2.9% preliminary). Retail sales have risen now for three months in a row. We still think that overall consumer spending is making progress and expect an economic rebound in 2Q.
- **China:** The Chinese government announced that Covid quarantine and test requirements are to be adjusted to a more relaxed mode. Some cities have already relaxed testing frequency and reopened schools and restaurants. The government announcement covers the whole country, suggesting that the latest Covid peak has passed, which is a positive note for the market. Though not as relaxed as other economies, this offers help for the economy to recover. But relying on just this relaxation will not push GDP growth to the 5.5% target for 2022. China is expected to increase infrastructure investment to push economic growth closer to the target. The next thing that the Chinese economy needs is to reopen international borders by reducing further the quarantine duration. We may revise upward our GDP forecast if key indicators rebound after this announcement.

What to look out for: Australia retail sales and Eurozone inflation

- South Korea consumer confidence (29 June)
- Japan retail sales (29 June)
- Australia retail sales (29 June)
- German CPI inflation (29 June)
- Euro zone CPI inflation (29 June)
- US 1Q GDP and core PCE (29 June)
- Powell speech (29 June)
- South Korea industrial production (30 June)
- Japan industrial production (30 June)
- China PMI manufacturing and non-manufacturing (30 June)
- Thailand trade balance (30 June)
- Hong Kong retail sales (30 June)
- US personal income and initial jobless claims (30 June)
- New Zealand building permits (1 July)
- Japan Tokyo CPI inflation, Tankan survey and job applicant ratio (1 July)
- South Korea trade balance (1 July)
- Regional PMI manufacturing (1 July)
- Indonesia CPI inflation (1 July)
- US ISM manufacturing (1 July)

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