Asia Morning Bites

Market attention today will be on regional PMI figures and China's Caixin manufacturing report. Later in the week, the focus will shift to the FOMC minutes and US non-farm payrolls.

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Global Macro and Markets

- **Global markets:** US stocks finished last week on a positive footing, with both the S&P 500 and NASDAQ rising more than a per cent. That was a better performance than Chinese stocks. The CSI 300 did rise about half a per cent on Friday, but the Hang Seng was roughly unchanged. Tomorrow is the 4th of July, so the US will be out, and markets may be a bit thin ahead of the holiday. US Treasury yields nosed higher again on Friday. The 2Y UST yield rose 3.6bp to 4.895%, while the yield on the 10Y actually edged down 0.2bp to 3.837%. EURUSD staged an abrupt turn on Friday, rising back above 1.09 and it sits just above that level currently. The AUD has also made gains, rising to 0.666 ahead of tomorrow's RBA decision (we think no change, but the consensus is split), as has Cable, which is up to 1.2698. The Yen briefly went above 145 on Friday but with concern about intervention, it came down to 144.3 and traded in the narrow range. From previous years' experience, intervention could be imminent, but we should watch the pace of depreciation more closely than the actual level of the JPY. If the yen depreciates by more than 2% within 1-2 business days, we think that could be a trigger for government intervention. Other Asian FX has also made some gains against the USD. The THB and PHP were the main gainers on Friday, while the TWD lagged the pack.

- **G-7 macro**: US data on Friday was a little softer than predicted. Personal spending was up just 0.1% MoM, and flat on the previous month in real terms. The core PCE deflator rose 0.3%MoM, in line with expectations, but the core PCE inflation rate came in a little softer on rounding, to 4.6%YoY, down from 4.7%. Core inflation in the Eurozone edged 0.1pp higher to 5.4%, though this wasn't quite as bad as had been expected. To kick this week off, we have the US Manufacturing ISM survey. Forecasters expect the headline index to move to a slightly less negative reading of 47.2 after 46.9 last month.
- **China:** Caixin releases PMI data today. The official PMI numbers last week showed manufacturing still struggling with a below-50 reading. But although the non-manufacturing survey index was still in the expansion zone above 50, it was lower than the previous month. The Caixin manufacturing PMI has been a little stronger than the official numbers and was still just above 50 last month. We think it will probably drift down to about the 50 level this month, in line with the consensus view.
- **Japan:** The latest Tankan survey showed that Japan's economy stays on its recovery path and will likely accelerate in the third quarter. The Tankan survey for large firms (both manufacturing and non-manufacturing) rose in both the current conditions and outlook indices. The current condition for manufacturing advanced from 1 to 5 for the first rise since June 2021 with confidence rising in the auto and electronics sectors. The outlook index also advanced to 9, beating the market expectation of 4. Despite the weakening of global demand, solid domestic demand, strong auto-sector performance and improving profits due to the weak JPY all may have supported the improvement seen in the manufacturing indices. The service-sector index also improved as expected. More importantly, capital investment across large enterprises rose 13.4% YoY (vs 3.2% 1Q, 10.0% market consensus). The Tankan survey is one of the most closely watched indicators by the Bank of Japan, and we think the BoJ will likely upgrade its growth outlook in its quarterly macro-outlook report.
- **South Korea:** The trade balance in June recorded a surplus for the first time in sixteen months mainly due to falling global commodity prices. Within the export side, transportation - autos and vessels - gained the most, but this was more than offset by a decline in chips and petroleum. By destination, exports to the US fell for a third month while exports to the Middle East rose solidly due to regional infrastructure investment projects. Please see the link for more details. However, business surveys showed that the manufacturing sector recovery is not so promising. Today's manufacturing PMI fell to 47.8 in June from 48.4 in May. Last week's local business survey also retreated. Thus, we are cautious about the improvement in manufacturing and exports in the current quarter.
- **Indonesia:** Indonesia reports inflation numbers today. We expect inflation to moderate further with the market consensus pointing to a 3.6% YoY increase in prices last June. Despite the slowdown in inflation, BI may opt to extend their pause and keep rates at 5.75% in the near term to help support the IDR.

What to look out for: Regional PMI reports and US NFP

- Japan Tankan survey and Jibun PMI (3 July)
- Regional PMI reports (3 July)

- Australia building approvals (3 July)
- China Caixin PMI manufacturing (3 July)
- Indonesia CPI inflation (3 July)
- US ISM manufacturing (3 July)
- South Korea CPI inflation (4 July)
- Australia RBA meeting (4 July)
- Japan Jibun PMI services (5 July)
- Philippines CPI inflation (5 July)
- China Caixin PMI services (5 July)
- Thailand CPI inflation (5 July)
- Singapore retail sales (5 July)
- US factory orders and durable goods (5 July)
- FOMC minutes (6 July)
- Australia trade (6 July)
- Malaysia BNM meeting (6 July)
- Taiwan CPI inflation (6 July)
- US ADP employment, initial jobless claims, trade balance, ISM services (6 July)
- South Korea BOP balance (7 July)
- Taiwan trade (7 July)

- US NFP (7 July)

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