Asia Morning Bites

China's Caixin manufacturing PMI will be reported alongside other Asian PMI readings today

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Global macro and markets

- **Global Markets:** An "on forecast" US PCE inflation report last Friday has led to Treasury yields dropping, though in all fairness, the numbers are still inconsistent with the Fed meeting its inflation target, and this wasn't a wildly encouraging report. 2Y US Treasury yields fell 5.2 basis points, while the 10Y yield fell 4.7bp to 4.499%. EURUSD pushed higher but is still only in the mid-1.08s. The AUD has edged slightly higher to 0.6653, Cable is also only very slightly higher at 1.2744 and the JPY has actually weakened, rising to 157.27. Asian FX was a mixed bag on Friday, but few currencies made sizeable moves. The KRW tracked the JPY weaker, and the INR also weakened slightly despite better-than-expected GDP data. US equities made half-hearted gains on Friday. The S&P 500 rose 0.8%, though the NASDAQ was basically unchanged. Chinese stocks were down again on Friday.
- **G-7 Macro:** There were very few surprises in the US PCE deflator figures on Friday. Neither the headline nor the core PCE inflation rates changed from March, at 2.7% and 2.8% YoY respectively. The month-on-month core deflator came in at 0.2%, though only thanks to some very lucky rounding, as at 0.249% MoM to 3 decimal places, it was one-thousandth of a per cent from coming in at 0.3%. Admittedly, the same can be said of the year-on-year figure, which at 2.754% was only 2.8% thanks to some rounding in the other direction.

James Knightley has written more on this release here. If there were some more encouraging elements to the PCE report, the real spending figure for April declined by 0.1%, undershooting the consensus forecast and setting up 2Q24 consumer spending within GDP for a softening. All in all, this report was mildly supportive for bond bulls, but only just.

Today, we have the US manufacturing ISM report - a helpful reminder that it is non-farm payrolls on Friday (they are almost always released in the same week). The headline ISM was sub-50 last time, and is expected to remain in contraction territory this month, though maybe slightly closer to the breakeven level than in April. Also, keep an eye on the prices paid numbers. At 60.9 last time, this is not a helpful inflation indicator and needs to come down more to be consistent with a more benign inflation outlook.

- **China**: The Caixin manufacturing PMI will be published this morning. Markets are looking for a small uptick to 51.6 from the previous month's 51.4, but the disappointment of the earlier published official PMIs may foreshadow a weaker read. The Caixin PMI has been stronger than the official PMI in recent months. If we see a disparity in the direction, it is worth noting that Caixin PMI respondents are more weighted toward the private sector and export-oriented firms.

- **India:** Indian GDP came in at 7.8%YoY in 1Q24, considerably higher than the consensus and our forecasts. The production-based GVA numbers, which we feel cast a slightly more credible light on the economy, showed growth of 6.3% YoY – still strong, but a bit slower than the upward revised 6.8% 4Q23 reading. The 1Q24 GDP result will put some upward pressure on our already strong 7% GDP forecast for 2024. We will adjust the numbers shortly.
- **Taiwan:** Taiwan's PMI continued to recover, rising to 50.9 from 50.2 last month and marking the second consecutive month of expansion and the highest level since April 2022. Both output and new orders were in expansion while employment dropped. Survey respondents indicated that domestic demand was firmer while underlying demand from export markets remained soft.
- **Japan:** The Ministry of Finance disclosed its intervention of 9.8 trillion yen ($ 62 billion) between 27 April and 29 May. A more detailed daily breakdown of intervention will only be available in the quarterly report, likely released in August. The amount was larger than ING's estimation (approx. $ 50 billion) but smaller than the 2022 intervention of $70 billion.

  Capital spending rose 6.8% YoY in 1Q24 (vs 16.4% in 4Q23, 11.0% market consensus). Revised 1Q24 GDP will be released next week, and the disappointing capital spending number suggests the contraction may be even deeper than the flash GDP figures. However, corporate profits rose 15.1% YoY, beating the market consensus of 8.3%, and a modest improvement from the previous quarter's 13.0%. The weak JPY is supportive of stronger corporate profits.

- **South Korea:** Trade data suggest that exports remained robust thanks to strong demand for semiconductors. But a sudden drop in imports implies weak domestic demand. Exports rose 11.7% YoY in May (vs 13.8% in April, 15.3% market consensus). Export growth moderated, but out of 15 major export items, 11 items increased in May. Most notably, semiconductor exports rose 54.5%, their seventh consecutive month of gain, driven not only by strong demand for memory and system chips for AI technology but also by a solid increase in memory prices. Car exports rose 4.7% after a 10.2% rise in April due to strong exports of SUVs and hybrid cars. Despite wild monthly fluctuations, exports of vessels have grown by 64% YTD (Jan to May), including a 108.4% jump in May. Vessels ordered rose dramatically in 2020-2022, and some of them are now being completed and launched. Steel (-11.9%) and rechargeable batteries (-19.4%) exports have dropped for several months this year, presumably due to weak demand and falling commodity prices. By export destination, exports to China (7.6%), the US (15.6%) and ASEAN (21.9%) gained firmly while exports to the EU (-2.2%) and CIS declined.

Imports unexpectedly dropped -2.0% YoY in May (vs 5.4% in April, 2.7% market consensus). Energy imports posted a mere 0.3% gain, smaller than expected while non-energy imports fell -2.6%. Consumer goods imports (-20.4%) – cars and apparel – dropped the most, suggesting sluggish domestic demand.

The trade surplus widened to USD4.9 bn in May from USD1.5 bn in April (vs 4.2 bn market consensus). We had expected the trade surplus to narrow due to faster import growth on higher commodity prices, but weak domestic demand is weighing on imports. In terms of GDP, the net export contribution is likely to remain positive in the current quarter, adding upside risks to our current GDP forecast of 0.1% QoQ sa in 2Q24 (1.3% in 1Q24).

- **Indonesia:** Indonesia's CPI inflation is set for release today. The market consensus points to a 3.0% year-over-year gain for May. A weaker IDR and faster inflation for food items likely kept prices elevated. We do not think this inflation reading suggests that Bank Indonesia (BI) will hike anytime soon. However, with inflation at the upper-end of the 1.5-3.5% target, we believe BI would consider hiking again this year should IDR weakness persist.

What to look out for: China Caixin PMI manufacturing and US ISM manufacturing

- Regional PMI manufacturing (3 June)
- China Caixin PMI manufacturing (3 June)
- Indonesia CPI inflation (3 June)
- US ISM manufacturing (3 June)
- South Korea CPI inflation (4 June)
- US JOLTS, factory and durable goods orders (4 June)
- South Korea GDP (5 June)
- Philippines CPI inflation (5 June)

- Australia GDP (5 June)
- China Caixin PMI services (5 June)
- Singapore retail sales (5 June)
- US ADP employment and ISM services (5 June)
- Australia trade balance (6 June)
- Taiwan CPI inflation (6 June)
- ECB policy meeting (6 June)
- US initial jobless claims (6 June)
- India RBI policy meeting (7 June)
- Taiwan trade (7 June)
- US non-farm payrolls (7 June)

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