Asia Morning Bites

The day before the FOMC, ECB...could be another choppy one

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Global Macro and Markets

- **Global markets:** Regional banks and energy stocks were the main reasons behind yesterday's stock losses as the First Republic sale failed to stop investors looking for the next SVB to short and weak oil prices weighed on energy producers. The S&P 500 lost 1.16% while the NASDAQ fell 1.08%. Equity futures suggest another difficult day ahead. US Treasury yields reversed most of yesterday's rise. The yield on the 2Y Treasury fell 17.9bp to 3.961%, while yields on 10Y USTs fell 14.4bp. This time tomorrow we will have had the latest FOMC decision, so the choppiness may well continue. The fall in yields has helped EURUSD to pull itself back above 1.10. The AUD gained following yesterday's surprise rate hike but has drifted lower again and is now 0.6666 to the USD. Cable has slid slightly down to 1.2475, but the JPY has made a strong start, moving down to 136.443. Asian FX has been relatively muted outside the G-10 currencies, though the KRW and IDR are trailing the pack with small losses yesterday.
- **G-7 macro:** Yesterday was a mixed day for European data ahead of the ECB meeting tomorrow. Bank lending was weak, but the inflation numbers were less helpful. Our economists, still anticipate that the ECB will hike only by 25bp as a result. A 25bp hike from the Fed also remains our base call. The US releases service sector ISM data together with the ADP labour numbers today, though it is unlikely that either will push the Fed off the expected tightening track. JOLTS job openings yesterday continued to decline, suggesting

that there is some growing weakness in the US labour market.
- **China:** The IMF has commented that China has room for looser monetary and fiscal policy based on low inflation in China. In the past, Chinese policymakers have usually taken into account IMF comments on monetary policy. Following these comments, we see a higher chance of liquidity injections via open market operations and monthly MLF operations. Even a RRR cut is possible. A cut in the policy interest rate (7D reverse repo and 1Y MLF) is less likely than liquidity management tools as the PBoC has previously stated that it would not let interest rates go too low or rise too fast. We expect that looser liquidity should be more obvious in 2H23 when the external sectors start to affect the domestic economy.

What to look out for: US ADP report and Fed decision later tonight

- Australia retail sales (3 May)
- Thailand inflation (3 May)
- US ADP employment and MBA mortgage applications (3 May)
- US ISM services (3 May)
- Fed policy decision (4 May)
- Australia trade (4 May)
- China Caixin PMI manufacturing (4 May)
- Hong Kong retail sales (4 May)
- ECB policy decision (4 May)
- US initial jobless claims and trade balance(4 May)
- Philippine inflation (5 May)
- China Caixin PMI services (5 May)
- Indonesia GDP (5 May)
- Singapore retail sales (5 May)

- Taiwan inflation (5 May)

- US non-farm payrolls (5 May)

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