

Asia Morning Bites

Japan and Korea's monthly activity data paints a mixed picture, with Japan looking the stronger of the two economies. Watch out also for the Indian GDP report for 2Q24 due later



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Global Macro and Markets

- **Global Markets:** US Treasury markets were again fairly subdued on Thursday. 2Y and 10Y US Treasury yields rose by a little under 3 basis points. The 10Y yield is now 3.861%. Yesterday's 2Q24 GDP second release from the US may have contributed to the slight increase in yields (See more below). EURUSD has drifted back below 1.11 and is now 1.1080. The AUD has remained firm though, and is just under 68 cents as of writing. Cable has tracked the EUR and is back to 1.3165, and the JPY is also a little weaker against the USD at 144.99. Other Asian FX had a better day against the USD. The MYR was again the pack leader, gaining about 0.77%. The CNY also made strong gains and USDCNY is now down to 7.0970. The PHP was the odd one out on Thursday, weakening slightly to 56.293. US stocks ended the day roughly unchanged after opening stronger but then losing all these early gains. The Hang Seng rose 0.53%, but the CSI 300 dropped 0.27%.
- **G-7 Macro:** Not normally a market mover, but the second release of the US 2Q24 GDP figures provided a little for everyone. For the bond bears, QoQ GDP growth in 2Q was revised up from 2.8 to 3.0% (saar). This was helped along by a big increase in the growth rate of personal consumption, which rose from 2.3% to 2.8%. The GDP price index was also revised up to 2.5% from 2.3%. On the other hand, the quarterly core PCE price index was revised

down from 2.9% to 2.8%. Today we get the much-awaited monthly core PCE inflation rate for July. The consensus expectation for a 0.2% increase would still leave the core PCE inflation rate edging slightly higher from 2.6% to 2.7%, so it remains to be seen whether the market is content to see the run-rate decline, or remains anxious about year-on-year comparisons. Inflation may in any case be playing second fiddle now to labour data, and next Friday's labour report could be the more decisive release prior to the 19 September FOMC.

- **Japan:** In today's data dump, data were a bit mixed, but we think that hotter-than-expected Tokyo inflation should be the main focus for markets and the Bank of Japan.

Tokyo consumer prices rose more than expected to 2.6% YoY (vs 2.2% in July, 2.3% market consensus) and core inflation excluding fresh food unexpectedly accelerated to 2.4% (vs 2.2% in July and market consensus). The main drivers of price pick-up were fresh food (8.1%) and utilities (15.9%) but household goods and entertainment continue to rise modestly. In a monthly comparison, inflation jumped 0.6% MoM sa, the highest rise in eleven months, with goods (0.8%) and services (0.3%) up.

Industrial production rebounded a smaller-than-expected 2.8% MoM sa in July (vs -4.2% in June, 3.5% market consensus). However, shipments rose by a solid 2.4%, and the inventory ratio dropped (-2.3%). As a result, we believe that gradual recovery remains intact. Also, most of the monthly volatility was caused by the auto sector related to the safety scandal issue. Retail sales rose for the fourth consecutive month. The labour market data was a disappointment with the unemployment rate unexpectedly rising to 2.7% in July (vs 2.5% in June and market consensus) but the job-to-application ratio edged up. We continue to believe that labour market conditions remain healthy.

Governor Ueda indicated that if macro conditions develop in line with the BoJ's projections, the BoJ will adjust its policy accordingly and today's data developments are broadly in line with the BoJ's view. Market opinions for another rate hike are spread sometime between October and January. Today's inflation data puts an October rate hike back on the table, but we are keeping a December hike as a base-case scenario for now. We believe the BoJ would like to see the Fed's rate decision in September and its impact on global financial markets before making its next move.

- **South Korea:** Monthly activity data was quite weak. All-industry output contracted for the third consecutive month. Manufacturing output, retail sales, and construction all fell, while services output and capital investment rose.
- The 3.6% MoM fall in industrial production in July was bigger than expected (vs revised 0.7% in June, -0.6% market consensus). Major manufacturing items such as semiconductors (-8.0%) and car (-14.4%) output dropped. We think that these are probably temporary drops related to inventory management, not trend changes. Still, signs of weakening growth are becoming more apparent, and we expect consumer inflation to fall below 2% in August. Macro conditions clearly support policy easing by the Bank of Korea. We still think October is the most likely month for the BoK to start easing, but it is not a done deal yet. The recent surge in household debt and house prices may force the BoK to delay the policy shift by a few months. The government and banks are already tightening lending conditions and other macroprudential measures. So, we need to see how this affects mortgage and housing markets in the coming months.

- **India:** GDP for 2Q24 will likely slow to around 7% YoY from the 7.8% rate recorded for 1Q24. The production-based GVA measure of national output has been running about a percentage point lower, and something closer to 6% looks probable here. This GVA measure may be a more accurate reflection of the underlying economic growth rate.
- **Australia:** As the Reserve Bank of Australia (RBA) is concerned that aggregate demand in Australia may not be as weak as suggested by measures such as GDP, high-frequency data like retail sales take on additional significance. Today's release for July is out at 0930 SGT/HKT and the consensus expects a slight slowdown from the 0.5% MoM rate recorded in June, to 0.3%.

What to look out for: Japan jobless rates, Australia retail sales, India 2Q GDP, US PCE

August 30th

S Korea: July industrial production

Japan: July jobless rates, Job-to-applicant ratio, industrial production, retail sales, housing starts, August Tokyo CPI

Australia: July retail sales, private sector credit

Thailand: July BoP current account balance, imports, exports, trade balance, August gross international reserves

India: 2Q24 GDP and July deficit

US: July PCE and core PCE inflation

China: August Manufacturing PMI, Non-manufacturing PMI (31st August)

S Korea: August Imports, exports, trade balance (1st September)

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