

## Asia Morning Bites

Recession fears grip some markets as central bankers signal their commitment to reducing inflation.



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### Macro outlook

- **Global:** Central Bankers in Sintra in Portugal cast a gloomy take on the global growth outlook, indicating that they would be steadfast in their pursuit of lower inflation, even if that meant recession (they didn't say that explicitly, we are reading between the lines). In spite of this, there is no direction from US stocks overnight. Both NASDAQ and S&P500 ended up virtually unchanged and there was little movement in either direction during the session on low volumes. Equity futures are also mixed today, so sentiment will take a backseat to macro for once. There was a lot more movement in FX markets, however. EURUSD fell to just above 1.0440 from about 1.0530 yesterday. The AUD has pushed down through 0.69 and Cable has dropped to the lower end of 1.21. The JPY has also weakened, rising to 136.58 ahead of Friday's Tankan survey. In Asian FX markets, almost everything was weaker against the USD, except the CNY, which held firm. As is often the case, the KRW led the decline and is now at about 1300. US Treasury yields have dropped back again. The 10Y UST yield fell a little over 8bp to 3.089%, the 2Y yield fell about 7bp to 3.039%. 10Y JGB yields are at 0.224%, comfortably below the 0.25% ceiling.

- **G-7 Macro:** Yesterday's German CPI inflation data for June came in a bit lower than had been expected, which may provide the ECB with some room to stick with a slower pace of tightening than some of their major peers. US May personal incomes and spending data for May are on top of the billing today. Spending growth is forecast to slow to 0.4% after the 0.9% growth recorded in April.
- **India:** Fiscal deficit data for May is released at 1830SGT today. This time last year, the deficit registered INR 440,475m, so we would be looking for the number to come in slightly smaller than this to be on track to meet the 6.4% deficit target.
- **Japan:** Industrial production (IP) for May recorded its biggest decline in two years (falling -7.2% MoM sa). It was much lower than the market consensus (-0.3%) and we believe that China's lockdowns could be a factor. Weaker-than-expected IP will lower the magnitude of the 2Q GDP rebound.
- **South Korea:** Manufacturing production bounced by 0.1%MoM sa in May (vs -3.3% in April). All industry activity rebounded firmly by 0.8%MoM sa, almost recovering from the previous month's loss of -0.9%. Most components recorded gains except consumption. Retail sales dropped for a third month, but the details were less pessimistic because durable goods sales including vehicles were up even though non-durable goods sales (medical products etc) were down. The highlight of this month's industrial production data was investment. Investment has been very weak and one of the most concerning elements of the economy. But it rebounded firmly (13.0%MoM sa) in May after falling for the past three months.

Korea's business sentiment index fell sharply in July. The manufacturing outlook index declined 3pts to 82, and the non-manufacturing index declined 5 pts to 80. We think businesses appear to be getting more concerned about the weakening of household purchasing power due to rising inflation and interest rates. Also, the export outlook dropped to its lowest level since March 2021, which suggests that external conditions will be unfavourable for a while. With yesterday's weak consumer survey results, we now have evidence that both households and businesses are becoming more gloomy about the outlook, posing downside risks to 3Q growth (0.7%q/q sa).

We expect quarterly growth to bottom out this quarter, but the rebound may be smaller than expected based on forward-looking soft data sets. However, high-frequency real activity data (mobility and credit card transactions) do not show a sharp decline yet, so we think that the reopening and government stimulus packages are still boosting household consumption and private service spending.

- **China:** Official PMIs due out later this morning should show the speed of recovery of the economy with fewer lockdowns in June compared to May. We expect a slightly better set of data for June, but recovery in non-manufacturing might not be seen in certain activities, for example catering.
- **Philippines:** Incoming Bangko Sentral ng Pilipinas (BSP) Governor, Medalla, signalled willingness to whip out more forceful rate hikes later on in the year should the exchange

rate “overshoot” and fan inflation. Previous guidance from Medalla was for a gradual rate hike cycle even as inflation hit fresh multi-year highs. Comments from Medalla could be supportive for the PHP, which closed yesterday at the weakest level since 2005.

## What to look out for: China PMI indices

- 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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