Asia Morning Bites

China's PMI report could show non-manufacturing sector growth slowing. US GDP revision causes bond yields to surge

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Global Macro and Markets

- **Global markets:** US Treasuries did not like the upward revision to the US 1Q23 GDP figures. 2Y yields soared by 14.9bp to 4.859%, and 10Y yields rose an equally eye-popping 13.1bp to 3.838%. Markets are now pricing in an 83.5% chance of a 25bp rate hike in July, though they seem to think that might be it, with only about a 36% chance of a subsequent hike after that. Equities weren't quite sure which way to turn. Stronger growth – good. Higher rates – bad. The S&P 500 rose 0.45% while the NASDAQ remained unchanged at the close. Chinese stocks fell. The Heng Seng Index fell 1.24%, while the CSI 300 dropped 0.49%. The USD showed no signs of weakening yesterday, given the support from rising yields. EURUSD has fallen to 1.0866. The AUD is back down to the low 66-cent range. Cable drifted slightly lower to 1.2612 and the JPY resumed its ascent, rising to 144.777. Asian currencies were mostly weaker against the USD. The CNY was only fractionally higher at 7.2475, aided by another stronger-than-expected daily fixing. The KRW has moved up to 1317.
- **G-7 macro:** Yesterday's third revision to the 1Q23 GDP numbers should not have been a market-moving event. But the scale of the revision higher, from 1.3% to 2.0% will be taken by some to mean that the Fed still has a lot of work to do. Today, we get the May personal income and spending figures, together with their associated price indices. The market

consensus expects headline PCE inflation to fall from 4.4% to 3.8%YoY, but the core deflator to stay at 4.7%. Final June University of Michigan confidence figures are also released. In the Eurozone, May inflation data could shed some light on the ECB's next moves. There is a growing divergence in the path of inflation across the region, which is leading to some disagreement about the right path for policy. Though one suspects that the response will be, if in doubt, hike.

- **China**: Official PMI data out this morning will likely show the manufacturing sector remaining in modest contraction, but could show non-manufacturing sector growth slowing as pent-up demand works its way through the system and more normal spending levels return.
- **Japan:** IP output was weaker than expected, declining by 1.6% MoM, sa (vs 0.7% in April, -1.0% market consensus), recording the first decline in four months. Motor vehicle production fell unexpectedly. But, the survey of production forecast shows that production is expected to rise in June by 5.6%. Consequently, we interpret today's weak data as a temporary drop and expect the underlying growth trend to continue.

  Tokyo consumer inflation unexpectedly slowed to 3.1% YoY in June (vs 3.2% in May, 3.4% market expectation), mainly due to base effects. In a monthly comparison, inflation rose 0.2% MoM sa, reversing May's 0.1% decline. Details showed that inflationary pressure mainly increased in commodity prices (0.4%) while service prices (0.0%) remained little changed. This month's electricity bill hike was the main reason for the monthly rise. Meanwhile, the labour market remained relatively tight, with the jobless rate staying at 2.6%. Today's data from Japan signals that the BoJ will continue to be patient on policy making.

- **South Korea:** Monthly activity data was surprisingly strong, with rising industrial production (3.2% MoM sa), retail sales (0.4%), and investment (equipment 3.5%, construction 0.5%). The decline in service activity (-0.1%) for the third month shows that the service-led growth trend is fading. Based on today's better-than-expected activity data, we will revise our 2Q23 GDP forecasts higher. But, at the same time, forward-looking data, such as machinery orders (-11.7% YoY) and construction orders (-27.8% YoY), weakened further and soft service activity in accommodation and restaurants suggest weaker consumption and investment in 2H23. Thus, we are going to downgrade the 2H23 growth forecasts.

  In manufacturing activity data, the upside surprise mainly came from semiconductors, which rose by 4.4%, which is quite puzzling, as it contrasts with major chipmakers' commitments to cut production. It usually takes 6 months to reduce production, thus the production cut is not fully reflected in the May output figures. Also, the recent strong demand for AI chips may have had some positive impact.

What to look out for: China PMI

- South Korea industrial production (30 June)

- Japan labour market data (30 June)

- China PMI manufacturing (30 June)
- US personal spending and Univ of Michigan sentiment (30 June)

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