

## Asia Morning Bites

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



## Asia Morning Bites

Source: shutterstock

### 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)

## Author

### Min Joo Kang

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto:min.joo.kang@asia.ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).