

Asia Morning Bites

China PMI reports to be the main focus for Monday with US non-farm payrolls looming on Friday.



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Global Macro and Markets

- **Global markets:** US stocks finished the week on a positive note. The S&P 500 gained 0.99% while the NASDAQ rose 1.9%. Chinese stocks also gained. The CSI 300 rose 2.32% while the Hang Seng rose 1.41%. The so-called Goldilocks trade of rates at or near their peak and a projected soft landing seem to be providing a supportive backdrop for continued stock gains. But to really be a supportive background, we need headline inflation to keep falling, and to be joined by a lower core inflation rate. Until this month, the evidence for the latter was quite thin. It may be gaining some traction now, but one month is not a trend. US Treasury yields actually fell on Friday. The yield on the 2Y Treasury fell 5.4bp to 4.874%, while the 10Y yield fell 4.8bp to 3.951%. The decline in yields no doubt helped the EUR to claw its way back above the 1.10 level to 1.1025 currently. The AUD remains subdued at 0.6658. We don't expect anything from the RBA this week, though we are in the minority here. We don't think the RBA is done, we just think there will be better months for them to hike, and that the inflation data this month was sufficiently good to keep rates on hold in the meantime. Cable also rose to 1.2858. The Bank of England will likely raise rates again this week, but only by 25bp after better inflation data. The JPY has given back most of its post BoJ gains after Friday's marginal YCC tweak (see here for [Min Joo Kang's note on this](#)),

and is currently at 140.85. Most of the Asian currencies lost ground to the USD on Friday, though the CNY saw some further consolidation, declining to 7.1485 from the Thursday close of 7.1675.

- **G-7 macro:** US June core PCE data on Friday helped bring that inflation rate down to 4.1% from 4.6%. The 0.2%MoM increase in the core figure is in the ballpark of what the US needs to deliver each month to get core inflation close to its target of 2%. A couple of 0.1% MoM outcomes will be needed to actually bring core PCE inflation below the 2% target, though it may be that the Fed thinks that “close is good enough”? Here’s [James Knightley for more on the US data](#).

Today, we get June German retail spending, and some advanced EU GDP data for 2Q23. The consensus on the GDP report is for a 0.2%QoQ increase, after the upwardly revised 0.0% result for 1Q23. In addition, EU July CPI is estimated, to come down from 5.5% to 5.2%, with the core rate dropping just 0.1pp to 5.4%.

- **China:** The official PMI data for July are out later this morning. The manufacturing index will most likely remain in modest contraction territory at close to last month’s 49.0 reading, while the non-manufacturing PMI should show a further decline from last month’s 53.2 figure, reflecting cooling retail spending activity.
- **India:** Fiscal deficit data for June are released today. So far this fiscal year, the deficit outturns have been roughly in line with those of last year, which should translate into a modest decline relative to what will be a higher nominal GDP level. Last June’s deficit figure was about INR1.48tr, so anything at about that level or lower would be a decent outcome.
- **Japan:** Monthly activity data was a bit mixed as retail sales slightly dropped but industrial production rebounded. Retail sales fell -0.4% MoM sa in June (vs revised 1.4% in May, -0.7% market consensus). Consumption goods sales such as apparel (-2.5%) made a second monthly drop while durable goods sales remained relatively healthy with vehicles up 3.9%. Meanwhile, industrial production rose 2.0% MoM sa in June (vs -2.2% in May, 2.4% market consensus). By product details, motor vehicles, electronic parts and devices, and machinery contributed to the rise while petroleum and coal, pulp, and transportation excluding motor vehicles declined. Shipments were also up 1.5% which brought the inventory ratio down -1.2%. Looking ahead, we believe that strong vehicle production will likely drive the gradual recovery in manufacturing at least for the current quarter.
- On a quarterly comparison, manufacturing improved from the first quarter while retail sales weakened a bit. But service consumption still gained from the previous quarter, so private consumption growth should remain positive in the second quarter. We expect 2QGDP to decelerate modestly to 0.5% QoQ sa from 0.7% in the first quarter. We think the net export contribution improved meaningfully with a sharper decline in imports.

What to look out for: China PMI reports

- China PMI manufacturing and non-manufacturing (31 July)

- Hong Kong GDP (31 July)
- New Zealand building permits (1 August)
- Japan labour market figures (1 August)
- South Korea trade balance (1 August)
- Indonesia CPI inflation (1 August)
- PMI regional reports (1 August)
- China Caixin PMI (1 August)
- Australia RBA (1 August)
- Hong Kong retail sales (1 August)
- US ISM manufacturing and JOLTS report (1 August)
- South Korea CPI inflation (2 August)
- Thailand BoT policy (2 August)
- US ADP jobs report (2 August)
- Japan Jibun PMI (3 August)
- Australia trade balance (3 August)
- China Caixin PMI services (3 August)
- UK BoE policy meeting (3 August)
- US initial jobless claims, factory orders, durable goods orders, ISM services (3 August)
- Philippines CPI inflation (4 August)

- Singapore retail sales (4 August)
- US non-farm payrolls (4 August)

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