Asia Morning Bites

It's a big day today with the Bank of Japan and Australian CPI amongst other regional releases ahead of tonight's FOMC meeting

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Global Macro and Markets

- **Global Markets:** US Treasury yields continue to decline, with some commentators pointing to the escalation of violence in the Middle East as a driver for a risk-off market move, which is also evident in falling stock prices and some firming of the USD. Tonight's FOMC meeting could also be weighing on yields, since although there is little expectation for any concrete policy shift, markets will be on the watch for any preparation for a September cut. 2Y UST yields have dropped a further 4.1 basis points overnight, and the yield on the 10Y Treasury is down 3.5bp to 4.139%. EURUSD is 1.0817, fractionally lower than at this time yesterday, and the AUD is also slightly softer at 0.6543 ahead of the key inflation data out at 0930 SGT. The JPY is considerably firmer at 152.66 ahead of today's much-anticipated Bank of Japan (BoJ) rates meeting (see more below), following some overnight media reports that a 15bp hike is being considered, while Cable is softer at 1.2841. Asian FX was mostly a little stronger yesterday, catching the tailwind from the JPY, but the EM Asian FX may struggle now in a risk-off environment. US equities fell further on Tuesday. The S&P 500 fell 0.5% while the NASDAQ dropped 1.28%. Chinese stocks also fell on Tuesday. The Hang Seng fell 1.37% and the CSI 300 lost 0.63%.
- **G-7 Macro:** Eurozone second quarter GDP rose 0.3%, beating consensus expectations for a

0.2%QoQ rise. German inflation also beat expectations, but in the wrong direction, rising to 2.6% YoY from 2.5% (expected unchanged at 2.5%). There wasn't much US data. JOLTS job openings came in stronger than expected and the Conference Board consumer confidence figures were also better than forecast, though some of the house price data looked a bit weaker. Today, we get Eurozone inflation for July. There may be some upside risk to the unchanged 2.5% YoY consensus forecast following the German data. We also have the ADP survey from the US and employment cost index ahead of the FOMC decision.

- **Australia:** We expect a slight decrease in the June inflation rate to 3.8%YoY from 4.0%, which is also the consensus view. But this would still imply a monthly run-rate for inflation that is inconsistent with the Reserve Bank of Australia's (RBA) inflation target, and the quarterly CPI release, which still gets more attention than the monthly series, will likely show an unchanged 1.0% QoQ rate of increase, taking the quarterly inflation rate for 2Q24 from 3.6% to 3.8% YoY. In our view, this would be inconsistent with rates remaining unchanged at the 6 August RBA meeting, where we expect a further 25bp rate hike to 4.6% unless today's data surprise substantially to the downside.
- **Japan:** Japanese monthly data was a mixed bag. But we'd like to focus on the strength in consumption over the weakness in manufacturing output. Retail sales rose a stronger-than-expected 0.6% MoM sa in June (vs revised 1.6% in May, 0.2% market consensus), the third consecutive rise. By item, expect for fuel, other major items all rose. Meanwhile, industrial production dropped -3.6%MoM sa in June (vs 3.6% in May, -4.5% market consensus).
- In the first half of this year, industrial production data has shown large month-to-month fluctuations due to the auto safety scandal. Some automotive production lines have been shut down since June and this is expected to continue in August. The disruption will hamper the recovery in manufacturing production for the time being. Due to this, we will revise down our GDP outlook for 2024 quite sharply. It is true that the weak production is clouding the near-term recovery, but this should be temporary and we believe that the BoJ would pay more attention to the continued recovery in retail sales.
- The Bank of Japan (BoJ) will announce its policy decision at around noon local time, followed by Governor Ueda's press conference at around 3:30 pm. The BoJ's policy rate decision and the revision of its JGB purchase programme could cause quite a bit of market volatility, especially ahead of the FOMC meeting.
- We have long been expecting a 15bp hike as we believe that the Bank of Japan needs to normalise policy gradually and even a 10-15bp hike would still leave monetary policy at a very accommodative level. There were recent reports in the local media about a possible rate hike by the Bank of Japan, so market sentiment has changed dramatically overnight. If the Bank of Japan were to now keep rates unchanged, it would cause significant volatility in financial markets.
- As for the bond-buying programme, the market anticipates a gradual reduction, with monthly purchases halved over two years (from 6 trillion now to 3 trillion at the end). But anything less, or a delay in implementation, will disappoint the market.
- **India:** Fiscal deficit figures for July will likely show that India remains on target to hit its latest 4.9% fiscal deficit for 2024/25. Last year's equivalent deficit for the same month came in at INR451,370 crore, and anything there or thereabouts would be a satisfactory result.
- **China:** The government released a press release covering the July politburo meeting yesterday. The meeting mostly reiterated the key themes from the Third Plenum but indicated that we will see further policy support rollout in the coming weeks and months. In terms of fiscal support, the meeting mentioned accelerating special and ultra-long-term

bond issuance and stepping up equipment upgrades and the household appliance trade-in programmes. In terms of monetary policy support, the meeting mentioned increasing financial support for the real economy and promoting a decline in financing costs, which implies further rate cuts may be on the table.

- China releases its official July PMI data today. We expect the manufacturing PMI data to remain in contraction this month, and forecast a slight dip from 49.5 to 49.3. Manufacturing has been one of the bright spots for the economy this year but survey data indicates growth may moderate in the second half of the year.
- **Taiwan:** Taiwan publishes its 2Q24 GDP data today. Markets are looking for a moderation of growth in 2Q after a very strong start in 1Q, but for growth to remain quite strong overall. Markets are looking for 4.8% YoY growth in 2Q, with our forecasts a little lower at 4.2% YoY. Most forecasts have been revised higher throughout the quarter amid better-than-expected monthly data in exports and industrial production.
- **South Korea:** Today’s monthly activity data was a mixed bag. On the positive side, strong manufacturing growth is expected to continue, and equipment investment was weak in 1H24, but it is likely to pick up in 2H24, with semiconductors and transport equipment all rebounding. For semiconductors, output rose by 8.1% and shipments by an even stronger 23.7%, so inventory conditions should remain positive for the production cycle for some time.
- On the negative side, although service activity rebounded (0.2%), this was largely due to the recent rebound in house prices. We don't see this as a good sign for now, as a rapid rebound in house prices would be a major concern for the government and the Bank of Korea, thus complicating policy decisions. Also, services related to leisure, sports and recreation fell (-5.0%), suggesting that private consumption has weakened. More worrying is the construction sector, which has been and will continue to be a drag on overall growth.

What to look out for: Japan BOJ target rate, China Manufacturing PMIs, Taiwan 2Q GDP

July 31st

S Korea: June industrial production

Japan: June retail sales, industrial production, Housing starts, BOJ target rate

China: July Manufacturing & Non-manufacturing PMIs

Australia: June retail sales, CPI

Taiwan: 2Q Advance GDP

India: June Fiscal deficit

August 1st

US: FOMC rate decision

S Korea : July trade balance, Imports & exports, Manufacturing PMI

Japan: Jibun Bank Manufacturing PMI

Australia: June trade balance, Imports & exports

China: July Caixin China PMI

Philippines: July Manufacturing PMI

India: July Manufacturing PMI

Indonesia: July CPI

August 2nd

S Korea: July CPI

Japan: July monetary base

Australia: July PPI

Singapore: PMI

Author

Robert Carnell
Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com