

Asia Morning Bites

EU partial ban on oil and hawkish commentary from Fed's Waller were the headlines with the US out on holiday. Indian GDP for 1Q22 out later.



Asia Morning Bites

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Macro outlook

- **Global:** With the US out on vacation yesterday, there isn't too much overnight catch-up to do for Asia, though commodity markets are responding to the partial EU ban on Russian oil agreed upon yesterday. FX markets continued their recent gains against the USD though. EURUSD has now risen to 1.0787, bringing it close to resistance levels just above 1.08. The AUD also continued to make gains, and is currently flirting with 0.72. Within the Asia FX pack, the KRW led the charge, shooting lower to 1238, with the CNY close behind in terms of gains at 6.66. Despite the holidays, the Fed's Waller struck a more hawkish tone at a speaking engagement than his colleague, Raphael Bostic, who had recently advocated a possible September pause in hikes. Waller, in contrast, suggested that 50bp hikes should remain on the table until inflation was closer to 2%. Newswires continue to run with stories looking for the trough in the equity sell-off, but also suggesting that the bond sell off is also over. One of those views is likely to be wrong. But whichever is the case, it is a good reflection of the current market sentiment which is looking for turning points. More choppiness ahead seems likely as a result.

It is a relatively light day for G-7 macro data today. The EU's May inflation should show a rise from 7.5% to 7.8%. But ECB rate hike intentions have been clearly flagged for now, so this shouldn't make too many ripples. And in the US, we have house price figures and consumer confidence numbers. Consumer confidence has barely any correlation with consumer spending, so we can probably give it only a cursory examination. House prices appear to be reaching a peak in year on year growth, but until or unless they show a marked reversal in direction, can probably also be glossed over.

- **India:** 1Q22 GDP, which is released at 8pm SGT tonight, should come in at about 4.0%YoY (consensus is 3.9%YoY). That should bring the annual fiscal-year GDP growth for 2021/22 to 8.7%. For the 2022/23 fiscal year, we are forecasting 7.2% GDP growth. Rising prices and tighter monetary policy as well as global disruptions and a less helpful base comparison account for the apparent slowdown.
- **China:** Official PMIs will be released this morning. We expect both the manufacturing and non-manufacturing PMIs will come in under 50, i.e. signalling monthly contraction. That result will mainly reflect the fact that Beijing was in lockdown for most of May, adding extra pressure on activity while Shanghai was also still in lockdown. Unemployment should remain high and will add uncertainty to the non-manufacturing PMI even if Shanghai residents resume work and production starting from 1st June.
- **Korea:** April monthly activity data signals that China's lockdown dragged down Korean manufacturing production while local reopening supported services, construction, and consumption activity. Manufacturing production plunged -3.3%MoM (vs -1.3% market consensus), the first monthly drop in seven months. Meanwhile, the construction and services sectors rose modestly for the second straight month, with notable rises in hotels & restaurants and personal services (11.5% and 8.7%) respectively. Consumption fell -0.2% but mainly due to a decline in pharmaceutical consumption, while durable goods, including automobiles, rose slightly. Overall, the April data was on weak side, yet the recent approval of a supplementary budget (62 trillion KRW) and the reopening of China should boost the recovery in the coming months.
- **Japan:** April Industrial production fell -1.3% MoM sa (vs -0.2% market consensus) the first fall in three months, with China's lockdown hampering supply chains and production activity. However, consumer sales were relatively sound with retail sales and department store sales up by 2.9% YoY and 4.0% respectively. Meanwhile, labour conditions also improved. The jobless rate in April dropped to 2.5% (vs 2.6% market consensus and March) and the job-to-application ratio ticked up to 1.23 (vs 1.22 in March). We ought to be on the watch for tighter labour market conditions leading to wage growth, which is the key that the Bank of Japan has been looking for to gauge a sustainable inflation trend.

What to look out for: EU inflation and US non-farm payrolls

- South Korea industrial production (31 May)

- Japan retail sales and job-applicant ratio (31 May)
- China PMI manufacturing (31 May)
- Thailand trade balance (31 May)
- Eurozone CPI inflation (31 May)
- US Conference board expectations (31 May)
- South Korea trade (1 June)
- Regional PMI manufacturing (1 June)
- Australia 1Q GDP (1 June)
- US ISM manufacturing (1 June)
- Indonesia CPI inflation (2 June)
- Australia trade balance (2 June)
- US ADP jobs, initial jobless claims, durable goods orders (2 June)
- South Korea CPI inflation (3 June)
- US non-farm payrolls and ISM services (3 June)

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