

Asia Morning Bites

Japan's May Tokyo CPI release supports rate hike calls. China releases PMIs and Indian 1Q24 GDP is also due



Asia Morning Bites

Source: shutterstock

Global Macro and Markets

- **Global Markets:** US Treasury yields took a break from their upward trajectory, and unwound some of their recent increase yesterday. 2Y yields fell 4.9 basis points and 10Y yields fell 6.6bp to 4.546%. This drop in yields allowed EURUSD to move higher again, and it is now 1.0832 after briefly dropping below 1.08. G-10 currencies also made gains against the USD. USDJPY has fallen to 156.87, taking it out of imminent intervention territory. Asian FX had a mixed day on Thursday. The KRW was down more than a per cent and the IDR, PHP and TWD also lost ground. But the CNY strengthened, and USDCNY has dropped to 7.2327. US equity markets weakened yesterday. The S&P 500 fell 0.6% and the NASDAQ fell 1.08%. Equity futures are negative again, but where stocks go today will be determined by what today's PCE inflation print delivers. Chinese stocks had another bad day yesterday.
- **G-7 Macro:** Yesterday's revised US GDP figures also delivered revised 1Q24 core PCE numbers, and they were slightly lower (3.6%) than the initial print (3.7%). That revision is likely to be carried through to today's monthly April core PCE figures and adds some downside risk to the 2.8% YoY consensus forecast for core PCE. We also get preliminary Eurozone CPI inflation data for May, which, like the earlier German figures, should rise slightly. This should not undermine expectations for a June ECB rate cut. But it does raise

questions about what happens after June.

- **China:** We get our first look at May's economic data later with the official PMI releases today. For the manufacturing PMI, we expect a slight uptick from last month's data, up to 50.8 from 50.4. Industrial activity has been outperforming so far in the year to date, and given new orders and new export orders have both been in expansion for the past two months, the PMI is expected to maintain positive momentum and remain in expansion for a third consecutive month. The non-manufacturing PMI is also expected to rise from 51.2 to 51.5.
- **India:** 1Q24 GDP data is due out later. There is a strong likelihood that today's GDP data will show a sharp slowdown in year-on-year terms. We forecast a 5.7% growth rate, way down from 8.4% in 4Q23 (consensus 7.0%). However, we don't read anything into today's GDP numbers. The profile for GDP is extremely erratic, and we still expect India to grow by around 7% this year. Put any slowdown today down to seasonal noise and concentrate on the higher frequency indicators like PMIs. These are still pointing to robust growth.
- **Japan:** Today's IP, employment, and inflation data were somewhat mixed, but the overall trend is still supportive of a recovery in growth in the current quarter. Manufacturing activity unexpectedly declined -0.1% MoM sa (vs 4.4% in March, 1.5% market consensus). The decline in car production (-0.6%) was a bit surprising, but after a 9.9% surge in March, we think this is a temporary adjustment and expect a rebound in the coming months. Meanwhile, retail sales rebounded more than expected by 1.2% MoM sa (vs -1.2% in March, 0.6% market consensus). As private consumption has a large share of GDP, we believe that today's mixed activity data still adds some upside risks to growth in the current quarter.

Tokyo CPI reaccelerated to above 2% in May, broadly in line with the market consensus, and after a sharp drop in April. Headline Tokyo consumer prices rose to 2.2% YoY in May (vs 1.8% in April, 2.2% market consensus) and core inflation excluding fresh food also rose to 1.9% (vs 1.6% in April, 1.9% market consensus). Inflation has been quite choppy due to various government programmes and utility prices. This time, higher utility fees (4.7% in May vs -3.0% in April) were the main reason for the pick-up. Given that Tokyo inflation is a leading indicator of the nationwide CPI results, we expect consumer prices to jump back to nearly 3% from the previous month's 2.5%. In a separate report, Japan's labour market remained tight with the unemployment rate staying at 2.6% for the third month in a row.

We believe that today's data results, particularly the stronger-than-expected retail sales and reacceleration of inflation, support our view that the BoJ will deliver another rate hike in July.

- **South Korea:** All industry production rebounded in April as manufacturing, services, and construction picked up. But, declines in retail sales and equipment investment raise concerns about sluggish domestic growth in the current quarter. Mining and manufacturing industrial production rebounded by a stronger-than-expected 2.2% MoM sa (vs revised -3.0% in March, 1.0% market consensus). By industry, the production of cars (8.1%) and chemicals (6.4%) rose firmly but the decline in semiconductors (-4.4%) deepened. As chip inventories have declined for three months in a row, we are not yet concerned about the two-month decline in chip production.

Meanwhile, domestic growth components - retail sales (-1.2%) and facility investment (-0.2%) - also declined. This suggests that export-driven manufacturing growth continued, but sluggish domestic demand weighed on overall growth.

We currently expect 2Q24 GDP to decelerate quite sharply to 0.1% QoQ sa from the previous quarter's 1.3% growth. We saw that the rebound in manufacturing and services didn't fully offset the previous month's decline, while the decline in retail sales was larger than the previous month's gain, so growth momentum is clearly slowing down. Given the larger share of exports/manufacturing in Korea's GDP, today's data outcome adds some upside risks to our current GDP forecasts.

What to look out for: China's PMIs, Indian GDP and US PCE data

- China manufacturing and non-manufacturing PMI (31 May)
- India GDP (31 May)
- US personal spending, PCE deflator (31 May)
- Fed's Logan and Williams speak (31 May)

Authors

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Min Joo Kang

Senior Economist, South Korea and Japan

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 <http://www.ing.com>.