Asia Morning Bites

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

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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)

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