

Asia Morning Bites

Mainland China restricts trade with Taiwan as Pelosi leaves the island. And FOMC speakers push back at easing pivot. Market risk appetite remains strong



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Macro outlook

- **Global markets:** Despite all the noise surrounding the Pelosi Taiwan visit, the net upshot of all of this has been very little impact on financial markets. Asian bourses were mixed rather than red yesterday, and European and US markets showed decent gains for the most part. The S&P500, for example, rose 1.56% and the NASDAQ gained 2.59%. And this came despite further Fed speakers pushing back at the “pivot-to-easing” idea. Yesterday, it was the turn of St Louis Fed President, James Bullard, to propose front-loading the tightening, and offering a year-end target of 3.75% to 4% (ING f 3.75% for 4Q22). Bullard also offered the view that rates also might need to stay “higher for longer” to achieve a broad-based reduction in inflation. We also had Neel Kashkari and Thomas Barkin confirming that the Fed was committed to lowering inflation and that a recession could happen. And when a central banker says that a recession could happen, you know they really think that a recession will, and probably should happen. Only Mary Daly offered an alternative view, suggesting that inflation could be lowered without causing mass unemployment or an economic downturn. The net result of all of this was to push the 2Y US Treasury yield up, though only 1.4bp to 3.065%, while 10Y yields eased 4.4bp lower to 2.705%. Our head of Rates [Strategy wrote](#)

[this piece before the latest upswing](#) in bond yields, which considers how the 10Y yield might re-test 3%. It is still a relevant read. The USD retained a bullish tone on Wednesday – helped by geopolitical tension and the market re-think of Fed policy. EURUSD is now 1.0161, a fraction lower than this time yesterday. The AUD is back up to 0.6946, perhaps lifted by yesterday's better-than-expected inflation-adjusted retail sales figures, which will have tempered thoughts that the Reserve Bank of Australia (RBA) is going to ease back on the brakes at forthcoming meetings. Cable weakened slightly ahead of today's Bank of England meeting and expectations for a likely 50bp hike. And the JPY is under selling pressure again as the market re-pivot towards US tightening continues. Remarkably, the TWD was the region's strongest performing currency yesterday, managing a minuscule gain. Most other (ex-Japan) Asian currencies saw small declines, though there was more weakness in the INR, PHP THB and KRW.

- **G-7 Macro:** We mentioned the US non-manufacturing ISM in our note yesterday as being worth a look as a benchmark for the overall state of the US economy, and the work left to do by the Fed. And the result offers cause for some concern in our view, though not yet by markets. The headline index, far from easing, has risen to 56.7, a three-month high. As mentioned, the Bank of England will likely deliver a 50bp rate hike today, taking Bank Rate to 1.75%. Within this, there was a big rise in new orders, and though the employment index was soft at 49.1, this was an improvement from the previous month and doesn't indicate much weakening in the service sector labour market. All of which suggests that recent Fed speakers are right – the Fed is way off being able to think about easing rates. We also had the OPEC plus meeting yesterday, which agreed to raise crude supply by 100,000bbl. An amount some are describing as a "rounding error". However, better than expected inventory levels from the EIA survey weighed on WTI crude prices.
- **Taiwan:** Food exports of Taiwan average less than 1% of total exports (the main export item is semiconductors). So the impact of China's import bans are more on the agricultural industry, which is important for the ruling party to keep its votes. More significant is the ban on sand exports from Mainland China to Taiwan, which will affect Taiwan's construction industry. Taiwan can import sand from other economies, but the shipping costs will be bigger.
- **Australia:** June trade data will probably show a statistical (i.e not meaningful) retracement of the 9%MoM export gain in May, taking the trade balance back to around AUD14bn. We do not anticipate that this will have a significant impact on the AUD.

What to look out for: US initial jobless claims

- Australia trade balance (4 August)
- US initial jobless claims and trade balance (4 August)
- Fed's Mester speaks (4 August)
- Philippines CPI inflation (5 August)
- Thailand CPI inflation (5 August)

- Indonesia GDP (5 August)
- RBI policy rate (5 August)
- Singapore retail sales (5 August)
- Taiwan CPI (5 August)
- US non-farm payrolls (5 August))

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com