

Asia Morning Bites

The RBA decision will be the main data release for the day as the US takes a holiday



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Global Macro and Markets

- **Global markets:** Not surprisingly, it was a fairly moribund start to the week for US stocks ahead of today's US holiday. Both the NASDAQ and S&P 500 made small gains. There was more action on Chinese bourses, where the Hang Seng rose 2.06% and the CSI 300 rose 1.31%. US Treasury yields continued to rise with 2Y yields up a further 4bp but 10Y yields up just 1.8bp. EURUSD is largely unchanged at 1.0914. The AUD is looking a little stronger at 0.6675 ahead of the RBA later today (we expect no change from them, though the market is split). Cable was little changed, but the JPY lost further ground rising to 144.64. In Asian Markets, the KRW and THB made some gains, but it was a lacklustre day for most currency pairs.
- **G-7 macro:** The [US Manufacturing ISM index weakened further to 46.0 from 46.9](#), and the employment index dipped into contraction territory, falling from 51.4 to 48.1. New orders were slightly less bad at 45.6, up from 42.6, but still in contraction territory. The equivalent manufacturing PMI index produced by S&P also registered 46.0, though was flat from the previous month. US construction data was stronger than expected, rising 0.9% MoM, though there were a lot of downward revisions. Apart from German trade data, it is quiet for Macro today in the G-7.

- **Australia:** The RBA decision today has the market split. Of 32 economists surveyed by Bloomberg, 13 expect a rise of 25bp to 4.35%, while 19 (including ourselves) expect no change to the current 4.1% cash rate target. The main reasons for our decision are as follows: The RBA hiked in June, and although the data has been mixed, back-to-back hikes seem excessive with rates already at an elevated level. Moreover, the run of recent inflation data has been far more benign than was expected, and if last month's finely balanced decision was pushed over the edge by higher-than-expected inflation, this month's decision should result in no change by the same logic. [See this note on the latest CPI data for more on this](#). Finally, there will be much better occasions for the RBA to hike in the months ahead if that remains necessary. September will be one of those, as the RBA can assess the impact of large electricity tariff increases which are due in July, and should be visible in CPI data by September. Also, favourable base effects drop out after July's CPI release for several months, so it is not inconceivable that we see some backing up of inflation over the third quarter before it dips again into the year-end.
- **South Korea:** Consumer prices rose 2.7% YoY in June, slowing for a fifth month (vs 3.3% in May, 2.8% market consensus) as gasoline (-23.8%) and diesel (-35.2%) prices limited overall price increases. Excluding agricultural products and oils, core inflation also slowed to 4.1% from 4.3% in May. We believe that inflation will stay in the 2% range throughout the year, there will be some ups and downs, but inflation probably won't return above 3%. KEPCO raised power bills from the middle of May leading utility fees to rise sharply (25.9%), but we don't expect additional fee hikes throughout this year due to falling global commodity prices. Also, rent prices marked five monthly drops in month-on-month comparisons, and the declines are gradually increasing each month. As a result, we think that service prices will come down further in the coming months.

Today's data support our view that the Bank of Korea (BoK) will continue to stay on hold. Now, the question is the timing of the first rate cut. We have pencilled in a 25bp cut in October as inflation is expected to head towards 2% while the economic recovery remains sluggish. The BoK may be concerned that rate cuts could cause a rebound of household borrowing, along with the recent easing of mortgage measures. At the same time, rising delinquency rates and default rates will also be a concern for the BoK as strict credit conditions have increased the burden on households.

What to look out for: RBA meeting

- South Korea CPI inflation (4 July)
- Australia RBA meeting (4 July)
- Japan Jibun PMI services (5 July)
- Philippines CPI inflation (5 July)
- China Caixin PMI services (5 July)

- Thailand CPI inflation (5 July)
- Singapore retail sales (5 July)
- US factory orders and durable goods (5 July)
- FOMC minutes (6 July)
- Australia trade (6 July)
- Malaysia BNM meeting (6 July)
- Taiwan CPI inflation (6 July)
- US ADP employment, initial jobless claims, trade balance, ISM services (6 July)
- South Korea BOP balance (7 July)
- Taiwan trade (7 July)
- US NFP (7 July)

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