Asia Morning Bites

China returns from vacation today and releases the Caixin manufacturing index. Bond yields drop and the USD weakens as the Fed raises the bar for any further tightening

Source: shutterstock

Global Macro and Markets

- **Global markets:** No big surprises from the FOMC meeting last night, which delivered a 25bp hike to the Fed funds target range. The forward guidance was, perhaps, a bit more direct than expected, removing the phrase *"some additional policy tightening may be appropriate"*, and replacing it with the excessively wordy *"In determining the extent to which additional policy firming may be appropriate to return inflation to 2 per cent over time the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments".* Our US economist and strategists pore over the latest decision in more detail here. Fed Chair, Jerome Powell, made quite a lot out of the recent banking issues in the US, and he may well have already seen a draft of the latest banks' senior loan officers' survey – this is due shortly and could make for some grisly reading.

  Perhaps a little surprisingly, stock markets did not respond more positively to the suggestion that this is the end of the line for Fed rate hikes. The S&P 500 dropped by 0.7%, while the NASDAQ fell 0.46%. There was a more solid reaction from the bond market.

Despite the rate hike, 2Y US Treasury yields fell 15.6bp to 3.805%, while those on 10Y US Treasuries fell 8.8bp to 3.33%. EURUSD enjoyed a fairly steady journey higher yesterday, spiking slightly higher on the Fed decision before retreating, but still making it up to 1.1070. The AUD still looks very tired in contrast and has drifted down to 0.6644. Cable has pushed on up to 1.2569, its highest since this time last year, while the JPY has also made gains, running down to 134.49. China comes back from holidays today, which could stir things up for other Asian currencies. Yesterday saw small gains for most of the Asian FX pack, which after the large gains by the JPY, were led by the KRW and THB. More of the same looks probable following the Fed last night.

- **G-7 macro:** Running under the radar, yesterday's ADP result of 296K was well in excess of the consensus view (150K) and would cause quite a lot of consternation if it were matched in Friday's payrolls release (consensus is currently 182K). The service sector ISM was also a little stronger than expected, with particularly strong orders, though there was also a weaker employment reading. On top of digesting the Fed decision, markets will also get a likely 25bp hike from the ECB today. Our economists have put this cheat sheet together to cover what to expect from various permutations of the policy decision and guidance.
- **China:** The Caixin manufacturing PMI should shed more light on how smaller exporters are doing in April. The reading was 50.0 in March. The contraction of manufacturing activity from the official manufacturing PMI surprised the market. Caixin's sample of survey respondents is different from the official PMI, including more smaller manufacturers. We expect that it could be slightly below 50.0 showing a monthly contraction due to slower growth in new export orders.

What to look out for: Australia trade and China Caixin PMI

- Australia trade (4 May)
- China Caixin PMI manufacturing (4 May)
- Hong Kong retail sales (4 May)
- ECB policy decision (4 May)
- US initial jobless claims and trade balance(4 May)
- Philippine inflation (5 May)
- China Caixin PMI services (5 May)
- Indonesia GDP (5 May)
- Singapore retail sales (5 May)

- Taiwan inflation (5 May)
- US non-farm payrolls (5 May)

Author

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com