

Asia Morning Bites

Post-Pelosi sigh of relief lifts Asian markets - focus shifts to US jobs report



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Macro outlook

- **Global markets:** US equities ran out of steam yesterday ahead of today's non-farm payrolls release. The S&P500 trod water for most of the day, while the tech-heavy NASDAQ made a little more ground and finished up 52 points or 0.41%. Relative strength indicators are hinting at US stocks getting a little overbought now, and with the S&P500 closing in on the 50% retracement of the down move this year, moving higher may now get a little harder. Asian stocks didn't do too badly yesterday in spite of all the live fire military exercises taking place around Taiwan, and there was more green than red on the charts. Asian FX similarly made decent gains for the most part. The main detractor from this trend was the INR, which pushed sharply higher ahead of today's RBI meeting. Markets will be hoping things settle down around Taiwan now Pelosi has left the island. The USD had a weak day yesterday in spite of the mixed equity environment and a motley assortment of macro data that can't really be blamed for the jump up to 1.0250, the biggest gain in 13 days. Perhaps this was a collective sigh of relief following the end of the Pelosi Taiwan visit? The AUD gains were more moderate, and it still sits a little below 70 cents, while Cable ended up roughly unchanged at 1.2157 despite some mid-session gyrations and the Bank of England's 50bp rate hike and warning that inflation could reach 13%. The JPY had a better day, making solid gains that

have taken it down to 132.80 currently. US 2Y Treasury yields edged 2.2bp lower to 3.043%, certainly not enough to justify the USD weakness on the day. The yield on the 10Y US Treasury bond was down even less to 2.688%. Crude oil prices continued to lose ground. The front-month Brent contract dropped to \$94.12/bbl, while the equivalent WTI contract was also lower at \$87.90/bbl. Gold continued its recent run of gains yesterday, perhaps helped by the slightly softer tone to US rates and weaker USD, and has risen to \$1992/t oz.

- **G-7 Macro:** This whole week has been leading up to today's non-farm payrolls release, and the consensus is anticipating a reasonable 250,000 gain in employment and an unemployment rate that will remain at only 3.6%. Until now, markets have been responding to stronger economic data as good news. But at some point, they will maybe question whether the Fed's tightening is having the desired effect if the economy remains strong. At that stage, they could start to fret that rates may rise higher, or stay higher for longer. We probably aren't at that point yet. But it is worth keeping an open mind about how the market will respond to these figures later today. German industrial production and French wage growth should paint a fairly stagflationary picture for the Eurozone.
- **China:** Mainland China's military drill around Taiwan has resulted in deferred flights and shipments in and out of Taiwan. The drill has had a negative impact on Taiwan's international trade. USDTWD has passed 30 as the TWD weakens. We expect the TWD to continue to be weak until next Monday (8 Aug), which is the last day of this drill. Further weakness in August is likely as the tension between the US and Mainland China over Taiwan has stepped into a new phase. This is likely to be negative for Taiwan's economy.
- **India:** The RBI meets today and is expected to take rates 35bp higher to 5.25%. We think there is a chance they move by only 25bp as the gap between Indian rates and inflation is not that big now, and there are signs it could narrow further in the months ahead.
- **Philippines:** The Philippines reports July inflation today. The market consensus is at 6.1%YoY as transport and food prices stay elevated. Inflation is well above the central bank's target and we expect Bangko Sentral ng Pilipinas (BSP) to continue to tighten policy for the rest of the year. BSP Governor Medalla signalled more rate hikes are in the pipeline and we are pencilling in a 50bp rate hike at the 18 August policy meeting. A more hawkish tone from BSP has helped steady the PHP of late, but the currency remains vulnerable to depreciation as the Philippines now runs a current account deficit.
- **Indonesia:** 2Q GDP is scheduled for release today and market participants expect GDP growth of 5.2%YoY. Indonesia's economy continues to recover, driven by solid household consumption and boosted by a resurgent export sector. Inflation has stayed relatively manageable despite global developments, benefiting spending on food items and some recreational activities. Manageable inflation also gives Bank Indonesia space to go easy on policy-tightening, a development that has helped support bank lending.
- **Korea:** The current account recorded a surplus of USD5.6bn in June, down from USD8.8bn in June last year. Rising commodity import prices were the main reason for the smaller surplus on the goods account. Meanwhile, the services account posted a deficit of USD0.5bn due to an increase in outbound travel. The primary income surplus widened to USD2.8bn on the back of increases in dividend payments from overseas.

What to look out for: China military drills and US non-farm payrolls

- 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)

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