

Asia Morning Bites

Highlights: RBA meeting today, South Korean inflation just out and Philippine inflation to come



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Macro outlook

- **Global:** With the US out for Independence Day, there isn't much of a global sentiment theme to grab hold of today, though for what it's worth, European stocks were broadly positive, and US equity futures are also looking green today, so at least we may start the week proper with some positive risk sentiment. FX markets were also relatively quiet. EURUSD remains at about 1.0433 – close to its levels this time yesterday. Cable is similarly positioned at 1.2115, while the JPY continues to drift higher, touching 135.87 currently. The AUD has climbed back to 0.6877. Outside the AUD's gains and the JPY's losses, there isn't much change in other APAC FX in the last 24 hours. No Treasuries to guide bond markets yesterday either, though European majors saw steep increases in 2Y yields on rising rate hike expectations, and 10Y yields also rose. Germany's 10Y Bund yield rose to 1.328%. 10Y JGB yields still sit at about 0.229% today, though were quite mobile dropping to as low as 0.206% and rising to as high as 0.24%
- **Global Macro:** Nothing of note on the calendar yesterday. Japan's labour cash earnings is the only release of note today (see below).
- **Australia:** The Reserve Bank of Australia delivers its July rate decision at 1230 SGT today.

We are firmly with the consensus in looking for a 50bp hike. We get more relevant data ahead of the next two RBA meetings, which could bring 75bp into play for either or both of them depending on how inflation and wage growth come in.

- **China:** The CAIXIN PMI will be released this morning, and should resemble the official PMI's above-50 reading, signalling an improvement from the previous month of retail services, for example, catering.

Separately, it is reported that the US will soon roll back tariffs on some Chinese goods. We expect those goods are not high-tech items. At the same time, we expect there could be another round of US tariffs on China-made technology-related parts and products to be imposed later this year. So, any related yuan strength could be short-lived.

- **South Korea:** June CPI inflation rose 6%YoY (vs market consensus of 5.9%, ING 6.0%, 5.4% May), the fastest rise since November 1998. More importantly, core CPI, excluding agriculture and oil, accelerated to 4.4% in June (vs 4.1% in May).

Over the next few months, inflation will accelerate further. 1) Electricity and gas prices have increased from this month, 2) fuel prices are expected to rise further despite the expanded fuel tax cut from 30% to 37%, 3) Summer vacation season begins from late July, and service prices are highly likely to rise.

Based on recently released data, we think that the BoK is set to make a “big step” at the July meeting, but is likely to revert to 25bp hikes in August and October. We expect that the BoK will enter an easing cycle by the end of 2023.

Korean foreign reserves in June stood at USD483.3bn, down USD9.4bn from May for the following reasons. 1) Measures to mitigate volatility in the fx market (the market is guessing that smoothing operations were made when the KRW broke through 1,300 in June) 2) USD strengthened compared to other currency reserves, 3) FX deposits of financial institutions decreased. It is the largest monthly decline since November 2008 but the total amount is still sufficient considering the size of the economy.

The KRW has recently fluctuated around 1,300 won against the USD, and the won's upward trend is expected to continue this quarter mainly due to the inversion of interest rates in the US and Korea. In particular, volatility is expected to increase if major US data prints show signs of a recession.

- **Japan:** Today's labour cash earnings showed that Japan's wage gains are slower than inflation. Cash earnings rose 1.0%YoY in May (vs a 1.5% market consensus, and 1.7% in April) while real cash earnings dropped -1.8% YoY. This adds downside risk to a consumption-led rebound in 2Q22 GDP. The Bank of Japan will maintain its accommodative monetary policy stance.
- **Singapore:** Latest data on retail sales is out today and the consensus points to another month of strong gains. Spending has remained brisk even in the face of accelerating inflation and we can expect the momentum to moderate in the near term as prices continue to head higher. The robust sales report should be supportive of growth in 2Q with other economic variables such as industrial production and NODX beating expectations for

the quarter.

- **Philippines:** June inflation is out today. Market participants expect price pressures to push headline inflation to 6.0%YoY as food, transport and utility costs edge higher. The central bank has remained gun-shy in terms of any rate hike response, but we expect a change in tone from Bangko Sentral ng Pilipinas (BSP) at its next meeting. Inflation will continue to creep higher, all the more so as the currency is facing significant depreciation pressures, and BSP may be convinced to finally double down on tightening with a 50bp rate hike at the August meeting.

What to look out for: RBA meeting and regional inflation

- South Korea CPI inflation (5 July)
- Japan Jibun PMI (5 July)
- Philippines CPI inflation (5 July)
- China Caixin PMI services (5 July)
- Thailand CPI inflation (5 July)
- Singapore retail sales (5 July)
- US durable goods and factory orders (5 July)
- Malaysia BNM policy rate (6 July)
- Taiwan CPI inflation (6 July)
- US ISM services (6 July)
- FOMC minutes (7 July)
- South Korea BoP (7 July)
- Australia trade balance (7 July)
- US trade balance and initial jobless claims (7 July)
- Japan BoP (8 July)
- Taiwan trade balance (8 July)
- US non-farm payrolls (8 July)

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