

Asia Morning Bites

Disappointment for India's PM Modi after a weaker election result than expected. Japanese labour earnings rise. Australia reports 1Q24 GDP figures while China's Caixin PMI services report is out as is Philippines inflation data



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Global Macro and Markets

- **Global Markets:** There wasn't much on the G-7 macro calendar yesterday, but US Treasury yields continued to decline, though at a more moderate pace than in previous days. The 2Y yield dropped by 3.8 basis points and the yield on the 10Y fell 6.2bp to 4.326%. JGB yields are also a little lower at 1.019%. Now that the 1% mark has been conclusively breached, this doesn't seem to be arousing as much interest any more. EURUSD is slightly lower at 1.0881, despite the ongoing decline in yields. The AUD has also dropped back to 0.6647 ahead of today's GDP numbers and Cable is also a little lower at 1.2772. The JPY, however, has made strong gains, and USDJPY has declined to 154.94 thanks to a report that the Bank of Japan may discuss the reduction of its bond purchases at its policy meeting next week. The INR gave back recent gains yesterday after early Indian election results suggested that PM Modi would win by a narrower margin than some had expected. The THB made some reasonable gains, along with the KRW. There wasn't much movement elsewhere. US equities made only small gains yesterday. Chinese stocks were slightly more convincing. The Hang Seng gained 0.22% but the CSI 300 rose 0.75%.

- **G-7 Macro:** Yesterday's G-7 releases were, for the most part, very uninteresting. The one figure that may catch the eye of bond bulls was the JOLTS job openings release for April, which showed a sharp drop in the number of job openings from the previous month. While this should have no bearing on Friday's payrolls, it does look to confirm that the US labour market is softening. In Europe, Germany's unemployment count rose by 25,000 in May, more than had been expected, though the unemployment claims rate remained unchanged at 5.9%.

Today, service-sector ISM data from the US is the main point to watch, though there is also a probable 25bp rate cut coming from the Bank of Canada. Tomorrow is the ECB meeting, where a 25bp rate cut also looks likely. Here is our [European team's "Cheat Sheet"](#) on what to expect and what it means for markets.

- **Australia:** Yesterday's net export contribution to GDP data was a little more negative than had been expected, which could put the consensus (and ING) forecast for a 0.2% QoQ increase in GDP under some downside risk. That said, the earlier capex figures were decent. The data is released at 0930 SGT/HKT.
- **China:** A report from the South China Morning Post flagged that the EU has decided to impose provisional tariffs on Chinese electric vehicles effective July 4th. Details on the exact rate will be announced next week. This development was largely expected, but will nonetheless come as a blow to the sector, as Europe has been the largest export destination for Chinese autos. A silver lining for Chinese automakers would be within the larger Europe categorisation, the two largest country export destinations have been Russia and the UK, which would not be affected by this decision. Having decided to hike tariffs, we may see a significant escalation of the current 10% tariff rate to significantly restrict imports, with many analysts expecting this rate could exceed 50%. There will probably be retaliatory measures if the final tariff hike is that significant, marking an unfavourable development for global trade starting in the second half of 2024. If we see a smaller tariff hike to 25-50%, it may be seen as a token gesture and consequently incur minimal retaliation as well.
- **Japan:** Labour cash earnings rose more than expected to 2.1% in April (vs revised 1.0% in March, 1.8% market consensus). The more closely watched BoJ measure, same-sample earnings, rose 1.7%, missing the consensus of 2.1%. Nonetheless, today's data confirms that the gradual increase in wage growth is continuing, as scheduled pay rose firmly. April's figures also do not fully reflect the recent spring wage negotiations, which will kick in from April through the summer, and more prominently in May and June. We expect real wage growth to turn positive by then, giving the BoJ more confidence for another rate hike. We now expect a 15bp hike at its July meeting.
- **South Korea:** South Korea's GDP grew by 1.3% QoQ sa in the first quarter, in line with an earlier estimate. Expenditure details changed, but only marginally so. Private spending was revised down to 0.7% (vs 0.8% flash estimate). Services consumption rose for the third consecutive quarter, but durable goods consumption fell for the sixth consecutive quarter, confirming overall goods consumption remains sluggish as monthly activity data have

suggested. Meanwhile, export growth was revised up to 1.8% (vs 0.9% flash estimate), slowing from 3.9% in the previous quarter. Today's revised data was compiled using the new base year of 2020 (from the previous base year of 2015). According to the BoK, the annual GDP growth has been revised up by 0.1pp on average between 2001 and 2023.

- **Philippines:** Philippine inflation is set for release today. The market consensus points to inflation hitting 4.0% year-over-year, up from 3.7% YoY in the previous month. Expensive rice is the main driver for inflation but we could see a steep drop in rice inflation after the Philippine government halved the tariff for imported rice (down to 15%). The BSP Governor is now talking up the prospect of cutting ahead of the Fed, something that is not helping the PHP.
- **Singapore:** Retail sales data will be out later this afternoon. The market consensus expects a 1.9% YoY gain.

What to look out for: Australia's GDP and China's Caixin PMI services

- South Korea GDP (5 June)
- Philippines CPI inflation (5 June)
- Australia GDP (5 June)
- China Caixin PMI services (5 June)
- Singapore retail sales (5 June)
- US ADP employment and ISM services (5 June)
- Australia trade balance (6 June)
- Taiwan CPI inflation (6 June)
- ECB policy meeting (6 June)
- US initial jobless claims (6 June)
- India RBI policy meeting (7 June)
- Taiwan trade (7 June)

- US non-farm payrolls (7 June)

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