

Asia Morning Bites

Tuesday's FX swings prove short-lived. Taiwan inflation data due today



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Global Macro and Markets

- **Global Markets:** US Treasury yields continued to fall overnight, despite what looked like a fairly positive services ISM (see more below), and perhaps taking their cue from the weaker ADP survey ahead of tomorrow's payrolls. The yield on 2Y US Treasuries fell a further 4.8 basis points, while the 10Y yield dropped 5.1bp taking it down to just 4.275%. This has been quite a big move on the back of not very much, and a lot will now rest on tomorrow's labour data and next week's FOMC if we are not to see a rebound.

Currencies don't seem convinced by the latest decline in yields, and EURUSD is little changed at 1.0874, though this may also be being held in check ahead of today's ECB meeting and the expectation of a 25bp rate cut from them. The AUD and Cable are also little changed over the last day, though the unwinding of the carry trade, which gave the JPY a large boost yesterday seems to have been short-lived, and USDJPY is back up at around 156 today. The CAD was briefly weaker following the dovish BoC rate cut, though this didn't last for long. Within the Asian FX space, the picture is quite mixed. The KRW made the strongest gains on the day, though saw some weakness late in the session. The INR also made back some of the losses it suffered following the Indian election results and is back below 83.4 again. Elsewhere, there were losses for the IDR and THB. USDCNY rose slightly to 7.2477.

US stocks were lifted by the growing optimism that weaker data will lead to rate cuts (though the evidence for this is still extremely tentative). The S&P 500 rose 1.18% and the NASDAQ rose 1.96%. Chinese stocks didn't benefit from this and the Hang Seng finished 0.1% lower while the CSI 300 was down 0.58%.

- **G-7 Macro:** Of the two main macro releases from the US yesterday, markets seem to have latched on to the least reliable as the guide for direction yesterday. The ADP employment survey does not have a good record at predicting non-farm payrolls, though in fairness, nothing else does either. The survey showed only 152,000 jobs created in May, down from 192,000 in April. Whether this provides even a directional clue to tomorrow's payrolls is no more than a coin-flip. The services ISM, on the other hand, is a fairly solid barometer of business sentiment, and the contraction reading from April (49.4) backtracked to a fairly robust expansion reading of 53.8. New orders were also strong (54.1), and stronger than the previous month (52.2) though there were slight falls in the prices paid index (58.1 from 59.2) though that remained very high, and the employment index was quite soft at 47.1, though better than April (45.9). [The Bank of Canada delivered the 25bp of cuts that it had flagged](#), and said that it was "reasonable to expect further cuts". The ECB will likely also cut at today's meeting, though they may be a little less open about the path ahead. [Our economists and strategists anticipate this being a moderately hawkish cut](#), with concern about lingering inflation and the modest upturn in the economy likely to be reasons for proceeding only cautiously with further cuts
- **Taiwan:** Taiwan publishes its May CPI inflation data this afternoon. We are expecting inflation to edge up to 2.1% YoY from 1.95% YoY in April. The April electricity price hikes already caused a direct uptick in the electricity component of CPI as well as PPI inflation in last month's data, but it should take some time before these costs are fully passed on to consumers. Inflation will likely trend above the 2% target for several months before cooling but is not expected to be severe enough to cause another rate hike.

What to look out for: Australia's trade numbers and Taiwan's inflation

- 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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