

## Asia Morning Bites

US equity markets inch higher but recession fears mount as Fed minutes point to resolve to tighten further.



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### Macro outlook

- **Global markets:** There was limited movement in US equity markets yesterday. Both NASDAQ and S&P500 finished up between 0.3-0.4% higher and equity futures are also showing small gains. Though this doesn't look or feel like a strong risk-on move. In contrast, 2Y US Treasury yields have pinged aggressively higher, 18.3bp to 3.002%, while the 10Y yield rose only 12.3bp to 2.928. Inversion was marginal yesterday. Today it looks pretty clear. The catalyst for the surge in yields was probably the Fed minutes from the June meeting. These showed the Fed was prepared to make policy quite restrictive if that was what it took to bring inflation down. [Here's a link to the full text of the Minutes](#). JGB yields have been dragged higher on the move, rising to 0.247%.

The surge in yields has given the USD another lift, and EURUSD has dropped below the 1.02 level, currently 1.0186. The AUD remains just under 0.68, and despite the slew of desertions from the UK Cabinet, Cable remains fairly steady at 1.1923. The JPY, which yesterday had been benefitting from safe-haven flows, was again under pressure, rising to just under 136. Other Asian FX was mixed. The CNY tailed the AUD making slight gains, while the PHP, THB and KRW populated the opposite side of the spectrum, losing ground to the USD. The PHP is now 55.693.

- **G7 Macro:** Yesterday's service sector ISM index held up better than had been feared. The headline index dropped to 55.3 from 55.9, but this was better than had been expected. There was less good news on the employment sub-index which dropped to 47.4 – contraction territory – ahead of tomorrow's non-farm payrolls release. German industrial production for May and the May US Trade balance are the main G-7 macro releases today. The German production figures are expected to show a working day adjusted decline in output, the US trade balance figures are expected to be slightly less negative.
- **Australia:** Trade figures for May are released at 0930 SGT. We don't anticipate a material change from the AUD10.495bn surplus recorded in April as both exports and imports are likely to have grown slightly from the previous month.
- **China:** It is reported that positive Covid cases in Shanghai will increase in the coming days due to KTV clusters. Beijing also has some positive cases. The Yuan could be under pressure when these cases are announced.

## What to look out for: US non-farm payrolls

- 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)

### Author

#### Iris Pang

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)