Asia Morning Bites

RBI meets to decide on policy while China reports the latest trade figures.

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Global Macro and Markets

- **Global Markets:** For once, investors were focussed on the ECB yesterday in preference to the US Fed, and what they got fit the expectation of a hawkish cut. Here are three takeaways from our European team.

  2Y European bond yields were up between 2-4 basis points, and those on 10Y European bonds rose by around 4bp. There was not much carry through to the US Treasury market. 2Y UST yields were almost unchanged and yields on 10Y Treasuries rose just 1.2bp to 4.287%. Where yields go next will depend on what today's payroll release delivers. The lack of forward guidance from the ECB did not particularly perturb the FX market. EURUSD moved a little higher to 1.0891, in line with the small increase in European bond yields. Other G-10 currencies were also mostly a little stronger against the USD yesterday, though nothing out of the ordinary. Asian FX had a decent day against the USD, with most currencies slightly stronger, led by the THB and PHP. The INR was a little softer again and rose to 83.4775. Equity markets were pretty flat yesterday in both the US and China.

- **G-7 Macro:** The run of high-frequency data leading up to today's May US labour market release suggests a weaker number. The consensus is for a 165,000 increase in employment, no change to the 3.9% unemployment rate registered in April, and average hourly earnings growth of 3.9% YoY. The data revisions that will accompany today's release are also likely to show that employment growth has been substantially lower than had initially been reported over the previous 12 months. A somewhat impenetrable release can be found on the BLS website, If you want to try to dig through the numbers.

- **India:** The RBI is unlikely to change its policy interest rate when they give their decision later today (1230 SGT/HKT). The repo rate currently stands at 6.5%, one of the highest in the region and also high relative to inflation, which has been fairly steady at a little below 5%. Growth too has been strong. The last GDP release clocked up a 7.8% YoY rate of growth. The loss of an outright majority for PM Modi's party at the recent elections raises the possibility of a bit more government spending in the coming years, and this may need to be offset by slightly less accommodative monetary policy than the counterfactual had he achieved the landslide the exit polls predicted. But we don't expect this to have any noteworthy bearing on today's decision.
- **China:** May trade data is scheduled to be published today. We are looking for exports to rebound to 8.7% YoY, and for imports to slow to 5.5% YoY, for a trade balance of USD77bn. The YoY growth numbers may look relatively robust in the coming months amid supportive base effects, but slowing new export orders in the PMI data and the implementation of tariffs in the US later in the year will act as headwinds on exports toward the end of the year. Import categories related to the AI race have seen strong growth in the last several months. Overall, net exports' contribution to growth are expected to be smaller in the second half of the year.
- **Taiwan:** Taiwan's May trade data is also set for release today. We expect exports to recover to 8.8% YoY, and imports to moderate to 4.2% YoY for a trade balance of USD6.8bn. Recent months' export orders indicate that the main growth areas in exports by product will be in electronics, and by destination will be exports to the US.

What to look out for: RBI meeting and Taiwan's trade report

- India RBI policy meeting (7 June)
- China trade (7 June)
- Taiwan trade (7 June)
- US non-farm payrolls (7 June)

Authors

Robert Carnell
Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

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