

Asia Morning Bites

RBA rates decision today as markets price out cuts this year. Inflation reports out from Taiwan and the Philippines are also due



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Global Macro and Markets

- **Global Markets:** US Treasuries had a fairly quiet day on Monday. 2Y yields rose 1.4 basis points, but the 10Y yield fell 2bp to 4.487%. There wasn't much on the macro calendar to move markets yesterday and the various Fed speakers giving their "patience on rates" message were largely ignored. EURUSD was also little changed and is currently 1.0767. The AUD had crept slightly higher to 0.6623 ahead of today's RBA meeting, and Cable is also slightly higher at 1.2559. The JPY has weakened though, rising back to 154.20 despite comments from the MoF's Kanda. Kanda's remark that intervention might not be necessary if markets are orderly may encourage traders to take on the authorities and push the JPY in a less orderly fashion. It was quiet in the rest of the Asia FX pack on Monday. China's return from holidays was accompanied by the CNY gapping down to 7.2088. The IDR and PHP also gained ground against the USD. Korea was out on holiday but is back today. US stocks continued to make gains. The S&P 500 and NASDAQ both rose slightly more than 1 per cent.
- **G-7 Macro:** Germany dominates the G-7 macro calendar today. Factory orders data for March and trade data are released, as well as the construction sector PMI. Eurozone retail sales data for March is also out. In the US, the Fed's Neel Kashkari speaks later today.

Kashkari is a non-voter this year.

- **Australia:** The Reserve Bank of Australia (RBA) meets today to discuss monetary policy, and all but one of the forecasters on the Bloomberg consensus are expecting no change. So are we. But, recent disappointing inflation data means that we don't entirely rule out a hike. However, we think the RBA would want to wait to see more data on inflation before concluding that it needed to tighten policy further - but the statement could be market-moving. Our base case is that further tightening isn't necessary, but tightening isn't as far-fetched as it may sound.
- **Taiwan:** Taiwan publishes its April CPI and PPI inflation data this afternoon. This will be the first month of inflation data since an 11% electricity price hike came into effect, and we should see a small immediate impact on direct prices, with the PPI likely to be more affected. Higher costs would eventually be passed through to consumers but this will take some time. For April's data, we are looking for inflation to remain broadly stable at 2.2% YoY, slightly up from 2.14%. Taiwan's Central Bank's surprise rate hike earlier in the year was seen as a pre-emptive move to contain the potential inflationary effects from the price hike, but we expect it will be a one-and-done measure unless inflation persistently surprises on the upside. Additionally, China and Hong Kong publish foreign reserves data today where markets are looking for a small drop.
- **Philippines:** April inflation is set for release today. Market consensus is pegged at 4.1% year-over-year, which is also our forecast for headline inflation. Faster food inflation and pricey imported energy items likely drove the uptick. Despite the projected acceleration in headline inflation, Bangko Sentral ng Pilipinas (BSP) Governor Remolona indicated he was inclined to look past this spike and keep policy setting untouched.

What to look out for: RBA meeting

- Japan Jibun PMI services (7 May)
- Philippines CPI inflation (7 May)
- Australia RBA policy (7 May)
- Taiwan CPI inflation (7 May)
- Philippines trade (8 May)
- Taiwan trade (8 May)
- US MBA mortgage applications (8 May)
- Philippines GDP (9 May)
- China trade (9 May)

- UK BoE policy (9 May)
- US initial jobless claims (9 May)
- US industrial production and Univ of Michigan Sentiment (10 May)

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