

## Asia Morning Bites

Recession fears ebb, as China suggests fiscal stimulus and Fed hawks downplay risks of contraction - payrolls later...



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### Macro outlook:

- **Global Markets:** The US equity market continued to make modest gains yesterday ahead of today's non-farm payrolls release, helped by two of the Fed's hawks - Waller and Bullard - who downplayed risks of a US contraction despite arguing for a forceful increase in rates. Investor recession fears ebbed, and this was reflected in market moves. The S&P500 rose 1.5% and tech stocks fared even better, with the NASDAQ rising 2.28%. US equity futures have flipped over to red now though. After its big losses the previous day, the EUR slowed its pace of descent, but still lost further ground, trading at 1.0164 currently. The AUD has gone the other way, however, climbing to 0.6841, and Cable has also made small gains on the day that PM Johnson announced he would be stepping down, taking it to 1.2021. The JPY has been reasonably steady, at just under 136 as of writing. The rest of the Asian pack was mixed, with small gains for the KRW but further losses for the PHP, which has broken above 56.0, prompting the BSP Governor to hint at bigger hikes in the coming months. US Treasury yields were quieter over the latest trading session. 2Y UST yields rose only 1.2bp to 3.014%. Yields on the 10Y UST rose by 6.7bp, but that still leaves them at only 2.995%. Inversion has diminished, in line with diminished recession anxiety, but has not disappeared.

**G-7 Macro:** As mentioned, it is non-farm payrolls today. The consensus expectation is for a gain of 268 thousand jobs, a bit down from the 390 thousand gain last month, but still a decent increase. The unemployment rate is expected to remain flat at 3.6%. How the market will react to deviations from this expectation is debatable. You could argue that a stronger figure will mean the Fed has more work to do, and so raises the prospects of a harder landing. But sometimes the market reaction is more simplistic than you might imagine. In any case, there is often little information in the consensus forecast, so it is often best to just wait for the outcome than to pre-position for it.

- **China:** There are reports that the Chinese government is considering the sale of local government special bonds for 2023 in 2H22, meaning an earlier sale of bonds previously allocated for 2023. Funds from these special bonds are used to finance infrastructure projects. There are a few points to make here: 1) "considering" in the news does not mean the government will push forward the sales in 2H22; 2) It is usual practice for the Chinese government that the local government special bond quota for the coming year is made public in 4Q, and process of issuance begins, and issuance is usually made at the beginning of the coming year. 3) Let's assume that CNY 1.5 trillion issuance amount stated by the media is the amount to be pre-approved for 2023, it is not a big jump from the CNY 1.46 trillion pre-approved quota set in 4Q21 for the issuance in 2022. In other words, this should not be considered an aggressive fiscal stimulus.

**Taiwan:** export and import data will be released today. We do not expect any significant improvement on a month-on-month basis, though the year-on-year figures should show faster growth. The slow improvement on a monthly basis is due to still weak demand in Mainland China, which is not only a manufacturing hub for semiconductors but also a big consumer market for semiconductors.

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

- Japan BoP (8 July)
- Taiwan trade balance (8 July)
- US non-farm payrolls (8 July)

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