Asia Morning Bites

Markets continue to trade in tight ranges ahead of potential catalysts for a break-out - ECB and US CPI.

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Macro outlook

- **Global**: The tedious up, down, up etc. trade in US equities continues. Yesterday, the S&P500 fell about one per cent, the NASDAQ fell a bit less. But over the last two weeks, trading has been in a very narrow range and also based on very low volumes. Previous instances of this range trading on low volumes have usually preceded a sharp down-shift. Catalysts for a more bearish outlook include today's ECB meeting and Friday's US CPI release. Despite the equity sell-off, EURUSD eked out some small gains, taking it to about 1.0718 from about 1.0707 yesterday at the same time. A couple of attempts to push higher came to nothing. The AUD hasn't fared so well and is back under 0.72 after also having a couple of abortive attempts to break higher. But most eyes in the APAC region and elsewhere will be on the JPY, which blasted up through 133 yesterday to sit at 134.47 now. Growing chatter about the currency being oversold and correcting sharply are interesting, though the JPY has been more oversold a couple of times since March, so while a painful correction could well be on the cards imminently, there may still be some more to come from the current move. The rest of the Asia pack's FX movements were fairly mundane in comparison to the JPY.

  Treasuries continue to sell off ahead of Friday's CPI. Both 2s and 10Y US Treasury yields rose

about 5-6 bp yesterday. The 10Y is back above 3% again. Will it last? Will it make a new high beating the previous intraday peak of 3.20%? Or will it be caught up in a new equity rout and head back to 2.7% or lower. At this stage, it feels like almost anything is possible. European bond yields are possibly a more interesting story. 10Y German bund yields rose more than US Treasuries yesterday, and their year-to-date increase is more than 150bp.
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As mentioned, today's macro newsflow is going to be all about the ECB. Here is our European economists' take on that. And also what our FX strategists believe it all means. Basically, if Lagarde doesn't open the door to a 50bp move in July, the EUR is heading back towards 1.05. Maybe this is the nudge that will push other markets out of their boring trading ranges?

- **China**: Trade data to be released today should bolster optimistic market sentiment as we expect both export and import growth in May to rebound from last month as the Port of Shanghai increased capacity to 90% in the last week of May.

- **Philippines**: Trade data is out today and we expect recent trends to hold. Exports will rise modestly, led by the semiconductor subsector, while imports are likely to sustain their double-digit pace of growth. Overall, the trade balance is expected to stay deep in a deficit of close to $5bn. The wide trade deficit will also keep the current account in deficit, and is one reason why the PHP will likely face depreciation pressure in the near term.

- Philippines trade balance (9 June)
- China trade balance (9 June)
- ECB policy meeting (9 June)
- US initial jobless claims (9 June)
- China CPI and PPI inflation (10 June)
- Malaysia industrial production (10 June)
- US CPI inflation and University of Michigan sentiment (10 June)

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