

Asia Morning Bites

Japanese consumer prices accelerated; Korea's early exports data point to strong global demand in semiconductors



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Global Macro and Markets

- **Global markets:** Bond yield movements were mixed overnight. The US 2Y yield rose 2.5bp to 4.737%, and the 10Y yield rose 3.7bp to 4.259%. German 10Y yields were also up 2.8bp to 2.430%. Dovish monetary policy developments overnight drove bond yields lower in the UK and Switzerland. UK 10Y yields were down 1.1bp to 4.055%, while Swiss 10Y yields fell 5.0bp to 0.577%. 10Y JGB yields remained flat at 0.940%. In FX, most G10 currencies moved a little weaker against the dollar. The CHF saw the largest decline of around -0.8% after a surprise rate cut, with the USDCHF weakening to 0.8914. EURUSD edged down to 1.0706, and the USDJPY rose to 158.91. GBPUSD dipped to 1.266. Asian FX were also mostly down a little against the USD yesterday, seeing mild declines between -0.02 to -0.48%, with the exception of the TWD which edged up 0.1%. Equity markets were mixed but mostly stronger overnight. In the US, the S&P 500 was down -0.25%, and the NASDAQ fell -0.79%, though the Dow gained 0.77%. In Asian stocks, the Nikkei was up 0.16%, while Chinese stocks continued to slump, with the HSI down -0.52%, while the CSI 300 fell -0.72%.
- **G7 Macro:** The main market focus yesterday was in central banks. The Swiss National Bank opted for a 25bp rate cut, which was the second straight cut and the third cut of the year,

citing decreased underlying inflationary pressure. Markets were mixed but had priced in no change prior to the meeting. The Bank of England on the other hand kept rates unchanged at 5.25% but hinted that the first cut is drawing nearer, which led to the market probability of an August rate cut to rise from 40% to 60%. [James Smith covers this meeting in a note](#), where he indicates the base case for the first cut remains in August. Chicago Fed President Austan Goolsbee made some comments that the Fed may cut if we get “more inflation readings like what we just got”. As Goolsbee has recently been on the dovish side, the comments appeared to have little impact on markets. In terms of data releases, we had a few data points from the US including the Philly Fed survey, jobless claims, and housing starts data. All indicators came in a little slightly weaker than expected, with the Philly Fed business outlook down to a 5-month low of 1.3, initial jobless claims came in a little higher than expected at 238k, while housing starts slowed to 1277k, the lowest level since June 2020. In upcoming data today, we have May retail sales data in the UK and France, and a slew of June flash PMI data in Europe and the US. Markets are generally looking for PMI data to edge up in Europe and moderate further in the US.

- **Japan:** Consumer prices accelerated 2.8% year-on-year in May (vs 2.5% in April, 2.9% market consensus) and core prices excluding fresh food also rose 2.5% (vs 2.2% in April, 2.6% market consensus), supporting the Bank of Japan's policy normalisation. As expected, utilities rose the most 6.6% (vs -1.1% in April). In a monthly comparison, consumer prices rose 0.5% month-on-month mostly due to a jump in goods prices (0.9%) while services prices dropped -0.1%. Once the BoJ confirms the solid wage growth in the coming months, we believe the BoJ is likely to deliver a small rate hike in July.
- **China:** Much of the discussion yesterday was centred on comments from People's Bank of China governor Pan Gongsheng at the Lujiazui forum. At this meeting, Pan indicated that the PBoC will gradually incorporate bond trading into its policy toolkit, and also discussed a potential interest rate framework reform to better target short-term interest rates and improve precision of policy transmission. In terms of short-term monetary policy developments, there was some content for both PBoC hawks and doves, as Pan noted that while challenges in the economy remained, and the PBoC would continue to adopt a supportive monetary policy stance, he also believed the policy stance was already supportive, and that they would “resolutely guard against the risk of exchange rate overshoot”. Amid these developments, the USDCNY fixings hit the highest level since last November yesterday, sparking a move in the USDCNY above 7.26 for the first time this year. Depreciation pressure on the RMB will likely remain in the near-term until there are stronger signals of a broader dollar weakening trend emerging.
- **South Korea:** Early trade data showed strong exports trend will continue for June. First 20 days exports rose 8.5% YoY and semiconductors led the gains mostly, by rising 50.2% thanks to solid global demand and price pickup. By destination, exports to the US increased 23.5% and also rose 5.6% to China. On a separate report, producer prices rose 2.3% YoY in May (vs 1.9% in April), rising for seven consecutive months, adding to concerns about sticky inflation ahead. Food prices trended down but service price accelerated, thus pressures on core consumer prices are likely to build up even more. Meanwhile, KEPCO announced this morning that electricity rates will remain unchanged for 3Q24. Pressures on the Bank of Korea from the politics are growing and it is possible we could see a minor vote at the July meeting, but given sticky inflation, the BoK is likely to continue to stay hawkish in July.

What to look out for: Japan CPI

- Japan CPI inflation (21 June)
- South Korea advance trade data (21 June)
- India PMI services (21 June)
- US existing home sales (21 June)

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