

Asia Morning Bites

Australian May CPI data could raise the risks that rates have not yet peaked



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Global Macro and Markets

- **Global Markets:** It was another quiet day in the US Treasury market. Both 2s and 10s yields rose a couple of basis points. A few Fed speakers yesterday all stuck to the notion that the Fed would be cautious regarding any rate cuts this year. The 10Y yield now stands at 4.248%. This quiet could drag on a little longer until the big release of the week on 28 June - the US core PCE numbers.
- EURUSD dropped back yesterday after Monday's rise and is now 1.0710. The AUD followed it lower, but this could be reversed if today's Australian CPI data don't show a return to falling inflation (we think it won't see below). Cable was steady at 1.2684 and the JPY has remained below 160. Asian FX was fairly rangebound on Tuesday. US stocks resumed their upward march yesterday.
- The S&P 500 rose 0.39%, and the NASDAQ rose 1.26%. Both have now made gains that would look impressive for the full year (14.66% and 18.03% respectively) and the second half may be heavier going. Equity futures are still pointing to another positive open though. Chinese stocks were mixed. The Hang Seng managed a small 0.25% gain, but the CSI 300 fell 0.54%.
- **G-7 Macro:** Not much was happening in G-7 space yesterday. US house prices continued to

rise according to S&P CoreLogic data, and the Conference Board consumer confidence index for June fell, but not as low as had been forecast (though there were some upward revisions to the prior month's data). New home sales and mortgage applications data later today don't have the potential to make markets move substantially.

- **Australia:** May CPI inflation data due at 0930 will most probably show a fifth month with no progress on inflation, and indeed, there is a decent chance it will show inflation still rising. We forecast an increase from 3.6% YoY to 3.7%, but it is a toss-up whether we will see an even stronger number, and the consensus is forecasting a rise from 3.6% to 3.8%. The main issue here is that last year's month-on-month change for May was strongly negative, and despite falling retail gasoline prices, we don't see last year's fall being matched, even if we do see a negative month-on-month outcome. We had said we were now just one bad inflation report from forecasting hikes. And it would be very tempting to make this change following another inflation rise. However, we have one more inflation report before the 6 August RBA meeting, and that could prove pivotal. It is also the quarterly CPI release for 2Q24 which carries more weight than the monthly numbers. The base effects are more helpful too. But even so, we believe we would need to see inflation actually fall, not just plateau for us not to look for a hike, and it could come at that August meeting no point in waiting...
- **Singapore:** May industrial production is forecast to improve to 1.4% YoY from -1.6% YoY in April. But this still leaves it bumping along at around zero, while the non-oil domestic export figures remain limp.

What to look out for : Oz consumer inflation

- Singapore May Manufacturing Output (June 26)
- Australia May CPI inflation (June 26)
- US Weekly MBA Mortgage Applications, May New Home Sales (June 26)
- South Korea June Business Confidence Index (June 27)
- Philippines BSP meeting (June 27)
- US 1Q24 GDP, Initial Jobless Claims (June 27)
- US May Durable Goods Orders (June 27)
- Japan May Unemployment rate, June Tokyo CPI inflation, May Industrial Production (June 28)
- South Korea May Industrial Production (June 28)
- India Fiscal Deficit (YTD) (June 28)
- US May PCE deflator (June 28)

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