

Asia Morning Bites

Japanese inflation and activity both firmed, but South Korea's domestic activity numbers suggest a meaningful slowdown of GDP in the second quarter



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Global Macro and Markets

- **Global Markets:** There have been a few market jitters ahead of tonight's US PCE numbers. After rising on Wednesday, US Treasury yields backed down again on Thursday. The 10Y yield is back down to 4.286% and this has helped EURUSD to push back above 1.07. This hasn't provided any support to the AUD though, which remains at 0.6647, roughly the same level as this time yesterday. Cable has made slight gains and is now 1.2640. The JPY is struggling to push above 160.90 and is at 160.70 currently.
- Asian FX didn't do much on Thursday. The main surprise was the PHP, which managed to eke out a 0.2% gain despite a very dovish BSP meeting. The KRW also made small gains. The PBoC set a weaker reference rate for the CNY for the seventh consecutive day. US equities were fairly flat on Thursday. The NASDAQ rose 0.3% but the S&P 500 didn't quite make it to a 0.1% gain. Equity futures are pointing to a brighter open today. Chinese stocks had another bad day on Thursday. The Hang Seng fell more than 2% and the CSI 300 was also down 0.75%.
- **G-7 Macro:** It was not a big day for US data yesterday, though that will all change today. The third release of 1Q24 GDP resulted in a small increase in GDP from 1.3 to 1.4% (saar),

and a small increase in the quarterly core PCE index to 3.7% YoY from 3.6%. Inventory data were also stronger, and headline durable goods orders also beat expectations, though there were disappointments on most of the core numbers as well as weak pending home sales.

- The market consensus for core PCE today is for a 0.1% MoM increase and a decline in the inflation rate from 2.8% to 2.6%. University of Michigan consumer confidence data is also on the calendar. Elsewhere in the G-7, there are preliminary CPI numbers from some European countries. This Sunday, France holds the first round of its parliamentary elections.
- **Japan:** Inflation data accelerated, Industrial production beat the market consensus and labour reports suggest that the tightness in the labour market continued. Tokyo consumer inflation data were largely in line with market expectations. Headline inflation rose to 2.3% YoY in June (vs 2.2% in May, 2.3% market consensus), gradually accelerating for the third month in a row. Core inflation excluding fresh food also rose to 2.1% YoY in June, a touch higher than the market consensus of 2.0% (vs 1.9% in May).

We have been arguing that the acceleration of inflation and solid wage growth are likely to support a BoJ rate hike as early as July. Today's data confirmed that underlying inflationary pressures remain intact. Utility prices were the main driver of the increase, but service prices also firmly rose in May. On a month-on-month basis, inflation rose 0.3% MoM sa in June (down from 0.4% in May) with both goods (0.4%) and services (0.3%) prices rising.

Industrial production rose 2.8% MoM sa in May, beating the market consensus of 2.0% (vs -0.9% in April, 2.0% market consensus). Shipments also firmly rose 3.5%. We believe that the gradual normalisation of automobile production is the main reason for the strong increase. By product, motor vehicles, electrical machinery and general-purpose machinery led the overall growth.

South Korea: Domestic economic activity contracted in May as manufacturing industrial production (-1.2%), services (-0.5%), retail sales (-0.2%), and investment all dropped. Industrial production unexpectedly fell by -1.2% MoM sa in May (vs revised 2.4% in April, 0.2% market consensus). As monthly growth has been volatile recently, it is difficult to assess the underlying trend. Looking at the data on a three-month change basis, industrial production declined by -0.54% 3Mo3M, sa in May from 0.49% in April, which supports our view that 2Q24GDP will decelerate quite meaningfully. The monthly fluctuations were mainly driven by automobile and semiconductor production. As we expected, semiconductor output (1.8%) rebounded after two months of decline, while automobile output (-3.1%) dropped. The downside surprise came mainly from machinery (-4.1%), where chip-making/assembly equipment unexpectedly fell.

What to look out for : US core PCE for May

- 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 core PCE deflator (June 28)

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