Good MornING Asia - 4 June 2021

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Market calm wavers

Yesterday's strong US employment data has nudged complacent markets out of their narrow range but will need verification from the official labour report due out of the US this Friday.

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Asia's markets usually take their lead from global markets, but for the last few weeks, that direction has been almost undetectable. However, the global market background stayed slightly risk-off for a second day yesterday, with the NASDAQ share index down about a per cent (not so much the S&P500). The principal driver for this seems to have been a very solid ADP employment report. This came in at 978K - about the same number forecasters were anticipating for payrolls last month when it actually came in at 266K.

Some years ago, when I used to do the US economy job (which my colleague James Knightley has taken on and vastly improved!), I used to regard the ADP as a better, "cleaner" measure of what was actually going on in the labour market than payrolls itself. This is because the non-farm payrolls number is a) only a survey b) subject to some curious seasonal adjustments 3) subject to further weird adjustments such as the births/deaths model for firms and 4) affected by anomalous weather, such as hurricanes, heavy snow etc which means that the end result may differ markedly from what is actually going on in the real world. The ADP is still messed about a bit by statisticians, but it is the actual payrolls managing firm for about 70% of private sector employment in the US, and as such might more reasonably be regarded as the "real payrolls number".

So to my mind, we don't need to wait for payrolls, though the market still remains a very big fan of it.

The other market response to the ADP result was some higher bond yields. The 10Y US treasury yield is now back up above 1.6% at 1.625%, and this seems to be mainly a real yield effect based on expectations about stronger jobs than an inflation expectations effect, with the breakeven 10Y rate remaining at about 2.45%. But you shouldn't rule out more movement from the breakeven rate. The ISM services index yesterday showed the prices paid index up at a very frothy 80.6 - and that will be largely a wage cost indicator. Moreover, we had some intriguing unit labour cost figures which were also strongly higher over the quarter, which could also point in the direction of higher labour costs.

Not surprisingly with bond yields higher, we have seen some broad-based USD strength, with the EURUSD back down to 1.2130 and Asian FX pack mostly weaker against the USD. Can we rely on payrolls to validate the ADP hint and give markets a further push in this direction? Not at all. But it is the least worse indicator we have, so shows the balance of risks.

Prakash Sakpal writes this about today's Reserve Bank of India meeting. "The Reserve Bank of India's Monetary Policy Committee will unveil the outcome of the bi-monthly policy review today at 10 am local time. We share a solid consensus of no change to the policy. This means all the market interest will be in the policy statement for the central bank's thinking on evolving growth and inflation trends amidst the ongoing Covid-19 second wave. Inflation has been elevated in the upper half of the RBI's 2-6% policy target (4.3% YoY in April), whereas growth likely took a strong hit from the Covid-19 second wave and associated lockdowns around the country. As this leaves rate policy in limbo, unconventional easing is doing all the heavy lifting. Governor Shaktikanta Das emphasised this in his unscheduled address a month ago (5 May) and he is expected to do so again today. After a strong run from late April to May, the INR has returned to be Asia's underperformer in June. Our end-2Q USD/INR view is 73.00 (spot 72.90)".

For commentary on Singapore retail sales, and inflation in Thailand and the Philippines, please refer to our sister publication, ASEAN Bytes.

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ASEAN Morning Bytes

Asian markets to remain in holding pattern ahead of the US jobs report on Friday

EM Space: US jobs report in focus on Friday

- **General Asia:** Asian markets will likely be in a holding pattern on Friday, cautiously monitoring the fallout from Biden's recent executive order on US investment in 59 Chinese companies which begins in August. More importantly, investors will await the US non-farm payrolls report out later tonight after both the ADP jobs numbers and the ISM services index beat market consensus. The regional data calendar features Philippine and Thai inflation, Taiwan GDP and Singapore's retail sales although the focus will clearly be on tonight US jobs numbers.
- **Singapore:** April retail sales figures today will shed light on consumer spending as the onset of the Covid-19 second wave started to hit demand. April is one of the weakest sales growth months in the year and likely to be more so this time due to the resurgent pandemic. Even so, the low base effect will boost year-on-year growth to levels not seen previously (ING forecast 41.7% YoY, prior 6.2%). Automobiles remain the key driver, though not by much judging from the 21% MoM fall in new vehicle registrations in April (yet up 276% YoY on low base effect). The reversion to the Phase-2 Covid-19 movement restrictions from mid-May has also seen shopping malls empty, suggesting a significant hit to sales in May-June. We have cut our forecast of 2Q GDP growth to 12% from 14% but maintained the full-year 2021 growth view of 4.9%, which is already bearish compared with the consensus.
- **Thailand:** The key question for the markets today will be whether Thailand's CPI inflation in

May follows its Asian peers upward. But at 3.4% YoY in April, it was already the highest in almost a decade and we think it stayed there in May. This indeed looks to be a brief peak since base effects will reverse to push inflation lower from June. Growth continues to be the key policy focus as the latest Covid-19 surge has further dampened hopes of tourism and overall economic recovery ahead. We expect the Bank of Thailand to stay on hold (next meeting on 23 June) and the THB to persist as one of Asia's weakest currencies throughout the rest of this year.

- **Philippines:** May inflation will be reported in the morning session with market participants expecting CPI inflation to remain at 4.5%, the 5th month above the central bank's 2-4% inflation target. Higher retail gasoline prices and still elevated public transport fares exerted upward pressure on headline inflation which was offset by slowing food inflation on better harvest for fruits and vegetables while pork prices dipped slightly due to increased imports. We expect inflation to decelerate in the coming months with the BSP still on hold until at least mid-2022.

What to look out for: US non-farm payrolls and Covid-19 developments

- Philippines CPI inflation (4 June)
- Thailand CPI inflation (4 June)
- Singapore retail sales (4 June)
- Taiwan GDP (4 June)
- US non-farm payrolls and durable goods orders (4 June)

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