

Inflation dominates market outlook

CPI data is due out of China today, and the US overnight - indications are that we are due more inflation strength - but bond markets seem relaxed



Why no concern?

As US Treasury bond yields drop again overnight, we have to make a decision. Maybe bond markets are absolutely right. The inflation we are seeing now, and are likely to see more of later today in China, and overnight from the US really is just transitory. This is a case of "nothing to see here, move on".

Or, and this is looking more likely, even if this is transitory - in the sense that it does not give rise to a spiral of wage and price increases that drags on for a while - it might still drag on for a while and in the meantime, remain higher than anticipated, or wished. Firms really do seem to be using the unprecedented opportunity of the disruption of the pandemic to undertake adjustments to prices - helped in the knowledge that everyone else is doing so too. And workers, flush with cash from handouts and realizing that life at home isn't so bad anyway (and what's the point of working if you can't blow it all on a nice overseas holiday) decide to hold out for higher wages, or at the very least, for a nice fat signing on bonus.

So there are a couple of points to make about this. The first is that the consensus seems to be a bit low for the May US CPI figure. The 0.4% MoM consensus call is quite a lot weaker than the recent

run rate for the inflation prints (3m annualised rate is more than 6%). Furthermore, in time we may find out that the number released overnight from the US turns out not to be the inflation peak after all. We won't know that until next month. And that will require next month's figure to deliver a 0.5%MoM or higher print to keep the annual inflation rate either stable or edging higher. But even though 0.5%MoM is quite a high hurdle, it is well within recent ranges, and definitely achievable.

China's inflation poses fewer concerns

We're a bit less concerned about today's Chinese inflation. For the most part, the increase in inflation we expect (we forecast 1.5%YoY in May from 0.9% in April, just a little below the 1.6% YoY consensus) is almost entirely a base-effect driven increase. In that sense, this month's figure will be very like last month. A notable rise in the headline rate, but little of substance underlying the change.

That said, we could see China's May PPI inflation push higher than the 8.5%YoY consensus forecast, raising the prospect of a possible double-digit PPI increase (up from 6.8%YoY), driven by rising commodity prices and higher semiconductor prices. This might well spur thoughts of further direct dampening measures from the authorities on firms' commodity purchases. There isn't much that anyone can do about higher semiconductor prices, and we don't think there will be any meaningful response from the PBoC.

Asia today

The China inflation data is definitely the main highlight for Asia today.

We have already had some revised 1Q21 GDP data for South Korea - that was a little higher at 1.7%QoQ (initially reported as 1.6%). We have some "banked" forecast increases we are holding back for Korea currently, while we wait to see if it manages to avoid going the way of many of its neighbours with a new wave of Covid and imposition of movement restrictions. If it does, we can add this held back reserve to our forecasts in a month or two. If not, then we can reduce the magnitude of any back-flip we have to perform.

Philippine trade data for April is today's other release. Eye-watering year on year growth figures (146%YoY growth forecast for imports) lose all meaning against the backdrop of huge falls last year, and the main focus should be on the trade balance, which is expected to remain roughly unchanged at -\$2400m.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an

investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.