Conditions for EM Asia getting less supportive

Higher for longer US inflation and a faster hiking Fed and strengthening USD look like exactly the wrong ingredients for a healthy emerging Asia

Shock inflation could spur more change from the Fed.

I've written in recent days about the Cleveland Fed NowCast for inflation. Last night's US June inflation numbers show the limitations for such measures, though I struggle to understand why such measures can't include an accurate measure of used and rental car prices - both things you would imagine you could find out fairly easily if you were minded to look for them. So US June headline inflation not only managed to exceed last year's tough 0.5%MoM hurdle, it smashed it, rising 0.9%MoM taking the annual rate of inflation to 5.4%YoY and a similar monthly rise took core inflation to a whopping 4.5%YoY.

James Knightley's piece here covers the main details - note especially the pipeline pressures indicated by the NFIB survey, and also the likelihood of housing joining the inflation party over the coming 12 months as rentals catch up with house prices. As JK suggests, this is not consistent with the "transitory" story Jerome Powell has been feeding markets. And with him testifying in front of Congress tomorrow, JK thinks that we may get the first hint of an earlier taper a lot sooner than we had been expecting. Let's see how markets digest that (watch also for tonight's Beige book).

Markets are coming to terms with the higher inflation story, though their reaction is not totally conventional. Firstly, and as I mentioned too a few days ago, markets may also be anticipating an earlier taper, and an earlier first fed rate hike, just like we are. But they aren't necessarily pricing in more tightening in total. Earlier might mean less in total according to this market view, which seems to be the message you get when you look at today's USD OIS curve and compare it with the same curve a month ago. And not much is being priced in for the peak Fed funds in total. The long term peak in the OIS yield is about 1.2%, and that is years in the future, with medium-term yields 2-3 years ahead not much higher than 0.75%. Could this be one explanation for 10Y US Treasury yields in the 1.40 area? It seems reasonable until this view alters.

This backdrop of higher for longer US inflation and a faster hiking Fed and strengthening USD is not a good recipe for emerging Asia. Following the Fitch outlook revision of the Philippines long term foreign currency issuance to negative from stable (affirming the BBB rating), questions might well be drawn over nearby neighbours, Indonesia, but also Malaysia and Thailand, all of which are suffering from new waves of Covid which will weigh on activity, tax revenues and ability to repay foreign debt. We haven't seen too much spillover yet, but it is worth considering with the backdrop turning less supportive, we may have to deal with a broad-based EM souring in both bond and FX space (equities obviously too) as we head into the year-end.

Asia today

Korea has already released June unemployment data, which shows that before the latest Covid restrictions kicked in, Korea was making progress in the labour market. The unemployment rate for June edged down to 3.7% from 3.8%, with gains in most sectors except. interestingly, manufacturing. Total employment gained, and unemployment fell against a modestly increasing labour force, so the decline in the unemployment rate looks legitimate, though comes with caveats about what may happen if the Covid daily increase does not soon start to fall.

And in Singapore, 2Q GDP was just released, Prakash Sakpal writes "Singapore’s advance GDP estimate for 2Q21 showed the economy growing by 14.3% from a year ago but contracting by -2.0% from the previous quarter. The outcome was in line with the consensus, so unlikely to have much market impact. Manufacturing remained in the driving seat for headline GDP growth with an 18.5% YoY surge. But the recovery of this sector was set back as we have also seen recently with exports data, and showed a 1.8% QoQ contraction in output. Likewise, construction and services sectors posted year-on-year rebounds but also contracted on a quarterly basis. The gradual reopening of the economy should instil some more life into the domestic economy, but this negative spell is likely to linger for some time to come. That means the recovery will be mainly dependent on exports regaining their recent strength. We see nothing in this data warranting any changes to the current fiscal or monetary policy settings just yet".

Author

Amrita Naik Nimbalkar
Junior Economist, Global Macro
amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland
mateusz.sutowicz@ing.pl

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com