

Passing the time before the Fed and US payrolls

Much of the newsflow between now and tomorrow's FOMC meeting and Friday's US jobs report will have little market impact, though it may help pass the time



Korea - no disappointment from semiconductors

Korea is one of the better gauges of regional export strength in Asia, and the news over the Mayday holiday was pretty good. One of the things we have been worrying about has been a narrowly based (semiconductor-led) export decline. But though the Korean export figures for April fell 1.5% year-on-year, semiconductor sales were up 37% YoY against a rising base, and most of the disappointment seems to have been due to ship sales, which are lumpy by nature. We can put this down to noise.

There is also some better data on Korean inflation this morning. Headline inflation for April rose from 1.3% to 1.6% (consensus 1.5%) More could be in the pipeline, as these latest figures look to be based on a broad-based improvement in consumer discretionary spending items (clothing, furnishings, restaurants), rather than have anything to do with rising crude oil prices (utilities inflation dropped slightly, though transport did nudge a little higher).

We have had a low-conviction 25bp rate hike in our forecasts for the Bank of Korea for a while.

Now, as we approach that quarter, it is no longer looking quite as silly as it did a few months ago. We'll stick with it, with firming conviction if the domestic data continues to run as it has this week.

Day ahead

Amidst a stream of not terribly exciting releases, Korea also releases its manufacturing PMI series today - as does the rest of the region. This includes the Caixin manufacturing PMI for China, which will arguably have the most market attention. Official PMIs earlier in the week were slightly higher, against expectations. We think these numbers, which stem from mainly smaller firms than the official series, could see a greater influence of deleveraging and trade tensions, so we see something lower than the consensus 50.9 as probable, though anything short of a catastrophic fall we will largely put down to seasonal factors.

Elsewhere, Indonesia's inflation for April will also likely edge higher to 3.5% YoY from 3.4%. We are expecting BI to raise rates 25bp later this quarter, and again in 4Q18. This inflation data will help solidify confidence in this call, and could provide a little support to the IDR, which has been struggling for most of the year (providing part of the explanation for rising inflation)

Global - Trump dominates the news still

Eurozone GDP for 1Q18 due today will provide no big shocks - we know most of the country data already, so the 0.4% consensus is basically an exercise in weighted averages and simple arithmetic. It will be weaker than US growth in the same quarter (0.6%QoQ), but stronger than that of the UK (0.1%). That puts it in line with currency performances. All regions have seen a slowdown in 1Q18 GDP. This is either poor statistical adjustment (US) or partly seasonal weather affected (EU, UK). In any event, it is historical and will arouse little interest in markets.

US President Donald Trump continues to draw media headlines, or at least, his administration does. Wilbur Ross is in the news today pouring cold water on suggestions that the Mnuchin-led expedition to China to discuss a trade solution to avoid all-out war will succeed. He notes that the US is poised to walk out of talks if they don't appear to be making quick progress (is this just Trump negotiation tactics? If so, presumably others are spotting the pattern by now, reducing its effectiveness...?)

We have also had more extensions (an additional one month) over the steel and aluminium tariffs. This has not pleased the Europeans, who see this as a means to tilt the trade playing field in favour of the US, rather than undo any natural tilt towards the EU. Cars are at the heart of the European bilateral surplus with the US. There is a reason European's don't buy US cars. It is nothing to do with trade unfairness or even price. We won't say anything more. We don't want angry emails.

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