

Asia morning bites

Risk sentiment sours as US inflation numbers surge past expectations



Expectations firm for a 50bp first Fed rate hike

Global: The main story is of course [the much bigger than expected surge in US January CPI inflation to 7.5%YoY](#). This has driven equity markets lower as expectations for Fed rate hikes have shot higher. Markets are now pricing in 100bp of tightening by July and the expectation for the first Fed rate hike in March being 50bp is gaining ground. The yield on 2Y US Treasury notes rose by more than 21bp, sharply advancing the flattening of the yield curve that has been the theme for some weeks now. 10Y UST yields rose more than 9bp and now sit above 2% at 2.02%.

In the background of this yield positive backdrop, the tension between Russia and Ukraine is still running high. Talks in Berlin overnight have failed to make any progress on a resolution. Any escalation of this situation could see a rapid reversal of recent Treasury yield increases.

It's a relatively quiet day in G-7 space for macro data with the main release being the University of Michigan Consumer confidence numbers. These could show inflation sapping sentiment, and the 5-10Y Inflation expectations survey, which is sitting at quite a modest 3.1% currently, looks poised to move sharply higher.

General Asia & Pacific: Asia's data calendar on Tuesday is light, with Taiwan's trade data the main release as well as Malaysian 4Q21 GDP which should bounce after the 3Q decline.

China: [Yuan loan growth for January](#) increased 11.5% YoY to CNY3.98 trillion, which means loans outstanding were CNY196.65 trillion by the end of January. Most of the loan growth came from longer-term corporate loans. The increase in loan growth indicates positive momentum in investment in the first and second quarters. We should see an increase in services and manufacturing activity in the area of IT and processing of building materials in a couple of months.

What to look out for: Are inflation expectations becoming unanchored?

- Taiwan trade balance and CPI inflation (11 February)
- US Michigan sentiment (11 February)

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