

Asia Morning Bites - 14 February

Markets jittery as US President Biden warns on Russia-Ukraine situation



Asia Morning Bites

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Recent bond market moves reverse

Global: Comments from US President Biden that warned of possible escalation this week of tensions between Russia and Ukraine have led to a sharp reversal in bond markets following their sell-off last week. Yields on 2Y US Treasury notes dropped just under 8bp on Friday, while 10Y bond yields fell a little more than 9bp to settle at 1.937% after their 2%+ level earlier last week. Oil and other commodity prices have been pushed higher on fears of supply disruptions.

Souring risk sentiment also dented equities, with the S&P down almost 2% on Friday and NASDAQ down almost 2.8% in steady selling. Equity futures for global bourses and their Asian counterparts are looking negative this morning. The risk-off mood also hit currencies. The JPY caught a bid on the back of the heightened risk aversion, while the EUR lost ground to the USD, and dropped back below 1.14 to about 1.1360. Most of the Asian pack was weaker against the USD.

Bond markets also had to digest divergent views from policymakers. The ECB's Gabriel Makhoulf was reported as trying to dampen expectations for ECB rate hikes this year, as was ECB Governing Council Member, Ollie Rehn. On the US side, the Fed's Mary Daly struck a dovish note saying rate hikes would need to be measured and data-dependent. In contrast, James Bullard favoured three hikes by July, one of which would be a half-point rise.

General Asia & Pacific: Asia's data calendar on Monday is light. Indian inflation data is the main release to watch

China: The PBoC will announce its policy action on the 1Y Medium-Term Lending Facility (MLF). We expect a 5 bp cut this month, and a bigger cut in March. There is little data available to assess the economy's situation as the Bureau of Statistics won't issue retail sales, industrial production and fixed asset investment data in February. But we expect a wave of infrastructure in software (e.g. telecommunications, and R&D) and hardware (e.g. green energy). Lower interest rates could facilitate growth in these areas and fill the gaps left by slower growth in consumption from strict Covid measures.

India: Indian inflation looks set to edge higher again in January, after its 5.6%YoY print in December. The increase looks likely even as some seasonal foods prices moderate, as rising global energy prices percolate into higher consumer prices. We think the consensus 6.0% forecast might be fractionally on the low side, which could be awkward for the Reserve Bank of India (RBI), which opted to leave policy unchanged last week and strike a growth supportive tone. 6% is the top of the RBI's inflation target range.

What to look out for: Trade releases, inflation, GDP and central bank meetings

- China: 1Y MLF rates (14 February)
- India: January CPI inflation (14 February)
- Japan: 4Q GDP (15 February)
- Korea: Export/Imports prices (15 February)
- Japan: January trade data (15 February)
- Indonesia: Trade balance (15 February)
- India Trade balance: (15 February)
- Philippines: December overseas remittances (15 February)
- South Korea: Unemployment rate (16 February)
- China: January CPI (16 February)
- Japan: Trade balance (17 February)
- Australia: January Labour market (17 February)
- Singapore: NODX (17 February)
- Philippines: BSP rate decision (17 February)
- Japan: January CPI inflation (18 February)

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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