

Asia Morning Bites

Here we go again...Massive declines in front-end bond yields as market angst over banks spikes ahead of the ECB policy decision. Bank Indonesia is also meeting today



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Global Macro and Markets

- **Global Markets:** Without a doubt, the main talking point from markets overnight has to be the 36.3bp decline in 2Y US Treasury yields, which now yield 3.887%. A 23.4bp decline in yields on 10Y US Treasuries means the 2s10s curve remains inverted, but at 3.455% on the 10Y, the curve is a lot flatter than it has been recently. A little over a week ago, the 2Y Treasury note was yielding more than 5%. All this seems still to be related to banking angst, with concern about Credit Suisse yesterday adding to the SVB drama of the previous week. OFR financial stress indicators have been spiking higher, though they are down a bit overnight, possibly due to the Swiss National Bank appearing to step in to provide liquidity. But it all adds unwanted excitement ahead of next week's FOMC and today's ECB meetings. The bond yield swings also reflect yet more reductions in the implied Fed funds rate, which now does not even fully price in a 25bp hike next week (see more below). This feels like an overdone move to this author, but it would only take another piece of bad market data – another struggling financial institution for example – or a bad reaction to today's ECB decision, and it might not look so implausible. Despite this massive drop in bond yields, especially at the front end, the USD seems to be benefiting from its safe-haven status, and

EURUSD is now back down to 1.0586 from a high of 1.0760 yesterday. The AUD is also down to 0.662 ahead of today's labour data. Cable has dropped to 1.2070, though the JPY has appreciated, moving to 133.13, which again fits the safe haven story...In Asia, the KRW also joined the JPY in making gains, though there were losses at the other end of the spectrum, with the CNY down 0.47% to 6.90. US equity moves have been mild in contrast. The S&P 500 has dropped 0.7%, but finished the session on an up note, while the NASDAQ actually managed to eke out a tiny gain on the day. It was not so rosy in Europe, where many of the major bourses were down more than 4%, with declines across the board, but led by financials. US equity futures look a bit brighter today, though it is still a sea of red in Europe and Asia also looks challenged.

- **G-7 Macro:** After the recent robust US data, yesterday's data run was noticeably weaker. Pipeline price measures, as measured by the PPI index, fell back in February. The final demand index dropped 0.1% MoM to take PPI inflation down to 4.6% YoY from 5.7%. There were big drops in the core index also. Retail sales also fell, though were in line with expectations, delivering a 0.4% MoM decline in February after the outsize and upwards revised 3.2% gain in January. The so-called "control group" of core items was, however, still pretty robust rising 0.5%MoM. [See this note by James Knightley](#), which also sets out his thoughts on what all this and other news means for the Fed. The ECB is the main event today, and they are expected to hike by 50bp, though as JK points out, if this goes down badly with markets, it could affect the Fed's decision next week. [Here is a link to a cheat sheet on the ECB decision](#).
- **Japan:** Today's trade and core machinery orders suggest that the recovery in Japan continues this quarter, driven mainly by the service sector. The trade deficit in February narrowed more than expected and core machinery orders in January rose more than expected. Exports rose 6.5 % YoY in February (vs 3.5% in January, 7.0% market consensus). By country, exports to the US (14.9%) and EU (18.6%) rose sharply. Exports to China dropped again (-10.9%) but improved from January's 17.1% fall as lunar new year effects dissipated. Meanwhile, import growth slowed quite sharply to 8.3% in February (17.8% in January, 12.4% market consensus) mainly due to declines in commodity imports. The trade deficit in February narrowed to -897 billion yen from its record shortfall of 3,496 billion yen in January. Separately, data showed core machinery orders, a highly volatile data set (regarded as a forward-looking investment indicator), rose 9.5% in January (vs 0.3% revised in December, 1.4% market consensus). Non-manufacturing orders rose 19.3% while manufacturing orders dropped -2.6%, showing the resilience of domestic demand for services. We believe that the continued signal of a domestic economic recovery will give the new governor of the Bank of Japan a greater chance to seek policy normalization in the second half of the year.
- **Australia:** After two months of employment losses, the February figures staged a large turnaround. Total employment gained by 64,600, driven by a 74,900 increase in full-time jobs. And the unemployment rate fell back to 3.5% from 3.7%. With Australia's labour market clearly still very hot, we find it hard to accept that there is only one more rate hike left for the RBA before peak cash rates are reached – despite the hints from the most recent RBA statement. The minutes of the last meeting are released next week, which may help to settle what they really intend – though more likely not.
- **Indonesia:** Bank Indonesia (BI) meets today to discuss policy. With all that's happened in

the past few days, BI will likely keep rates unchanged at 5.75%. Inflation remains high but core inflation edged lower, and this gives BI enough reason to sit tight. Governor Warjiwo should tie any future decision on rates to the inflation outlook, but he will also likely attempt to calm jitters about Indonesia's own banking sector.

What to look out for: BI policy meeting, ECB meeting and US initial jobless claims

- Bank Indonesia policy (16 March)
- Hong Kong unemployment (16 March)
- US initial jobless claims and housing starts (16 March)
- ECB policy meeting (16 March)
- Singapore NODX (17 March)
- Malaysia trade balance (17 March)
- US industrial production and Univ of Michigan sentiment (17 March)

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