

Asia Morning Bites

Market sentiment improves despite aggressive Fed rate projection



Asia Morning Bites

Source: shutterstock

Macro outlook

- **Global:** There's been a huge amount of newsflow for markets to process in the last 24 hours – the China market support (see China section below), some apparent progress in Russia-Ukraine talks, and the hawkish Fed meeting yesterday. The net result of all of this has been a big rally in stocks – the NASDAQ rose just under 3.8%, and the S&P500 was up 2.2%. Eurostoxx gained more than 4%, though these gains were dwarfed by the almost 9% gain in the Hang Seng index buoyed by a strong message of market support from China's Vice Premier. A faint hint that China's zero-Covid policy may also be relaxed slightly won't have done any harm either. Equity futures are still indicating a positive tone this morning, so this may not be a one-hit-wonder. The Fed's suggestion that they will hike 25bp at each of the remaining FOMC meetings this year and carry on into 2023 has led to some bear flattening of the US Treasury (UST) curve. UST 2Y yields rose just under 9bp to 1.938%, while the UST 10Y yield rose only 4bp to 2.18% though it did briefly touch 2.24% intraday. While yesterday's signalling has caused the breakeven inflation rate to decline, there is now not all that much more room for 2Y yields to rise before they hit the imagined cycle peak for Fed funds, so it is not completely obvious which way the curve now runs. EURUSD was lifted by the more positive tone to regain the 1.10 level, which it is trading just above currently. The AUD also recovered back close to 0.73, though, with commodity prices likely to ease back if there is some progress on Ukraine, it probably won't slavishly follow EURUSD in the

coming weeks. Most of the Asia FX pack gained against the USD, led by the SGD, but with reversals of recent weakness by the KRW, INR and THB too.

In the G-7 today, we have a Bank of England rate meeting, [which will most likely see Bank Rate rise a further 25bp to 0.75%](#). Other than that, some housing starts/permits data from the US will be of secondary interest. The construction industry in the US seems to be in decent shape right now. Ask us again in 6 months when rates are higher. And in other news, there has apparently been no payment of the \$-debt due from Russia yesterday. This now enters a 30-day grace period before bondholders can call a default.

- **Australia:** Just out this morning, some very strong Australian labour market data. Total employment rose by 77,000, led by a huge 121,900 rise in full-time employment and offsetting a 44,000 decline in part-time employment (much of which probably converted to full-time jobs this month). The unemployment rate fell too and is now only 4.0% equalling the record low of 2008. Something for the RBA to mull while it clings on to its dovish stance.
- **China:** Vice Premier Liu He commented yesterday that the Chinese economy needs policy support, including monetary policy. His message clears uncertainty that there might be no further relaxation from the PBoC following their recent pause. In the same event, he mentioned that discussions with the US on Chinese companies' listing in the US have made substantial progress. Achieving this would signal a step forward for easing tension on the economic relationship between the two big economies.
- **Taiwan:** Taiwan's central bank has a monetary policy meeting today. We expect no change in the policy rate of 1.125% as Taiwan's inflation has been hovering below 3%, which is not as high as many economies in the West. As such, the need for a rate hike to combat inflation is small.
- **Singapore:** Feb NODX dropped well below market expectations, suggesting softer demand as the growth outlook dims given the ongoing geopolitical developments. NODX still managed to grow 9.5%YoY but much lower than the 16.5% gain expected.
- **Indonesia:** Bank Indonesia (BI) will hold a policy meeting today. BI Governor, Perry Warjiyo, is widely expected to keep policy rates unchanged citing the need to support growth. However, we do expect BI to reiterate their willingness to eventually adjust policy rates as soon as inflation becomes a concern. With the ongoing conflict in Europe causing a pickup in food and energy prices globally, domestic inflation will likely accelerate in the coming months leading to an eventual reversal in BI's policy rate by the end of 2Q22.

What to look out for: Geopolitical developments

- Australia labor market (17 March)
- Singapore NODX (17 March)
- Taiwan central bank policy meeting (17 March)
- Bank Indonesia policy meeting (17 March)
- US initial jobless claims, industrial production (17 March)
- Japan CPI inflation (18 March)
- Malaysia trade balance (18 March)

Authors

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.