Asia Morning Bites

Market sentiment improves despite aggressive Fed rate projection

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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)

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