

Asia Morning Bites

Markets shrug off hawkish comments from Fed's Bullard



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Macro outlook

- **Global:** The week started quietly, with the main news item being the 75bp rate hike possibility aired by the Fed's Bullard. Bullard also favours rates heading to a "neutral" rate of about 3.5% by the end of the year. The logic is sound, but we suspect the rest of the Fed is not there yet. Treasury markets didn't respond much to what was in any case Bullard's non-base-case scenario for the May FOMC meeting, with UST2 yields ending about flat on the day and 10Y US Treasury yields rising only 2.5bp to about 2.85%. Equities also finished more or less flat on the day, which was a better outcome than equity futures had been suggesting earlier on, with the major US bourses trading in about a +/-1% range. In FX space, things were also relatively quiet with EURUSD nosing below 1.08. Asian FX was more directional, led by JPY weakness as USDJPY moved above 127.

With much of the G-7 still out for Easter Monday, the macro news flow yesterday was limited. Today is similarly quiet with just US housing starts / permits and existing home sales unlikely to rock markets. The opening of a new Donbas offensive by the Russian military in Ukraine could put geopolitical tensions back into focus.

- **Australia:** The minutes of the April RBA meeting are out shortly, and may provide some

insight into how nervy the RBA is getting with their current dovish stance. The April meeting saw the removal of the term “patient” from its statement’s closing sentence, which might suggest we are getting closer to a tightening. We’d certainly expect something from the RBA before the end of this quarter, though we anticipate that they will still move expeditiously.

- **Indonesia:** Bank Indonesia (BI) meets to discuss policy today. The central bank is widely expected to keep policy rates unchanged on Tuesday although we can expect Governor Warjiyo to signal a potential rate hike may be in the works. Previously, Warjiyo had hinted that policy direction would take its queue from core inflation trends. Recently, we have noted a pickup of price pressures manifesting in both headline and core inflation readings. We expect core inflation to accelerate further, adding pressure to BI to eventually tighten policy as early as the May meeting.

What to look out for: Geopolitical developments

- Japan industrial production (19 April)
- Bank Indonesia policy meeting (19 April)
- US building permits and housing starts (19 April)
- Japan trade balance (20 April)
- PBoC loan prime rate (20 April)
- US existing home sales (20 April)
- Korea PPI and trade (21 April)
- US initial jobless claims (21 April)
- India trade balance (15 April)
- US industrial production (15 April)

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