

Asia Morning Bites

Bullard “option” pushes bond yields higher



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Macro outlook

- **Global:** Following a better day for US equities, which saw the NASDAQ riding 2.15% higher, and the S&P500 gaining 1.61%, futures markets are looking downbeat again, and Asian equity futures are looking quite patchy. There is nothing particularly new on the Fed outlook, though Bullard’s 75bp “option” is still getting traction on newswires. The big market moves have come from the US Treasury market, where a huge 14.4bp increase in 2-Year yields has taken yields to 2.592%. 10Y US Treasury yields were also higher, reaching 2.935%. Next stop 3%? And where next? If you believe Bullard’s neutral rate lies closer to 3.5% than 2.5%, then it could be some way North of that. If you believe the Fed’s long-term rate view, that is closer to 2.5%, then some retracement is on the cards. Take your pick.

The other big market mover was the JPY. Up above 129 now versus the USD. Markets will be viewing 130 as a clear target today. And at this level, and with some sign that the depreciation is beginning to accelerate, it may not be long before the BoJ starts to make more vocal its concern about the direction of the currency, even floating the possibility of some intervention. Though with the policy mix at such odds with that in the US, this would only likely bring temporary relief from the rout.

- **China:** Following the publication of its 23 measures on Monday, the PBoC will set rates on the 1 and 5Y LPR today. The market expects a 5bp cut to both rates. Earlier this week, the PBoC released some measures to help people and companies affected by Covid. Most of the measures are window guidance to banks. The outcome depends on the banks' reaction to the central bank's suggestions. The measures also suggest that the monetary policy response will remain modest compared to fiscal stimulus ([see our longer note on this](#)). The PBoC will also set rates on the 1 and 5Y LPR today. The market expects a 5bp cut to both rates.
- **Korea:** The National Assembly yesterday adopted the hearing report of Bank of Korea Governor nominee, Rhee Chang-yong. At the hearing, Rhee expressed the view that additional rate hikes would be necessary to curb inflation expectations unless there was a problem for growth. He added that it was important for the BoK to send a clear signal to the market so that it could moderate the pace of household debt growth.

Given Korea's macro-environment, there is no need for the BoK to take big steps to follow the Fed. Thus, a US/Korea interest rate inversion is possible for a while. This could risk a weaker won and higher inflation, but it is unlikely to cause capital outflows as Korea's macro fundamentals were healthy.

Combining Rhee's comments, we believe that our current forecast of two additional hikes is reasonable. As inflation is expected to peak out and growth to moderate in 3Q, the BoK will then become more cautious on rate hike.

- **Japan:** March export growth decelerated to 14.7% YoY (vs 19.1% in February) as car exports dropped. This was weaker than the market expectation of 17.1% while imports rose strongly by 31.2% mostly due to higher energy prices. In volume terms, merchandise exports actually contracted -1.5%YoY (vs 2.7% in February), with sharp drop in exports to Asia (-7.3%) and China (-13.0%). Seemingly, the global supply chain disruptions due to the ongoing war and China lockdowns are weighing on regional trade activity.

What to look out for: Geopolitical developments

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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