

Asia Morning Bites

Market reversals, profit-taking and short squeezes yesterday - but prevailing trends likely to re-emerge



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Macro outlook

- **Global:** Quite a choppy day for markets yesterday with some reversals and profit-taking dominating prevailing trends. US Treasury yields pulled back, with the yield on 10Y bonds down a chunky 10.4bp. It's not clear what the catalyst for this was. The Fed's Beige Book pointed to continued strong price pressures, though did suggest that maybe wage growth was abating a little, and the growth outlook was described as more "uncertain" due to geopolitical factors. The Fed's Daly also followed up some of her colleagues downplaying the prospects for peak Fed funds after Bullard's more hawkish views grabbed the headlines earlier in the week. The fall in bond yields may have provided some support for equities, with the S&P500 broadly flat on the day, though it was an uglier picture in tech though with the NASDAQ down about 1.2%. Equity futures looking positive though, with Asian markets also showing some signs of positive risk appetite for the near term. FX markets were also very interesting yesterday. The headline move was driven by the unexpected fixing of the CNY much higher, probably a response to China's economic weakness. Though at the other end of the spectrum, the JPY, which has been threatening to breach 130, pulled back to below 128. This probably won't last. The EUR and AUD both had better days against the USD. The MYR was the weakest of the Asian pack – again, no clear reason for this, though

softer oil may have been a factor.

- **China:** President Xi will speak today at the Boao Forum, which invites Asian leaders to talk on policy topics. We will be watching to see if President Xi will give any hint on changes to the Covid policy direction in China though it is unlikely that he will ditch zero the Covid strategy at the Forum.
- **Korea:** Early April trade data (first 20days) showed that Korean exports rose 16.9% YoY while imports were up more strongly by 25.5%. This resulted in a trade deficit of \$5.2bn. IT and petrochemical exports continued to rise firmly but auto and cellphone exports were weak. Although Korean IT exports have shown resilience so far, there are some cloudy signals for the coming months: Exports to Hong Kong declined for the second month and semiconductor manufacturing equipment imports dropped sharply. In sum, we expect the April trade balance to remain in the deficit zone for a second month and possibly a couple of more months due to rising energy prices. This supports our view that exports' contribution to growth will turn negative in 2Q22.

Korea's producer price index rose to 8.8% YoY in March, a bit cooler than the recent peak of 9.9% last Nov. Energy prices continued to climb (+69.7%) but were partially offset by weak domestically produced fresh food prices (-13.7%), which have dropped for three months in a row.

What to look out for: Geopolitical developments

- Korea PPI and trade (21 April)
- US initial jobless claims (21 April)
- Japan inflation (22 April)
- Malaysia inflation (22 April)
- Fed's Powell and ECB's Lagarde speaking engagement at IMF meeting (22 April)

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