

Asia Morning Bites

Market sentiment roiled by fears of rates going higher and at a faster pace



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Macro outlook

- **Global:** The gyrations in markets continued yesterday, stirred up by further hawkish comments from the US Federal Reserve Chair, Jerome Powell. Powell endorsed a 50bp hike at the forthcoming May meeting, and appeared to sanction a further 50bp in June. Fed funds futures for December 2022 now imply an effective Fed funds rate of 2.63%. This end-2022 implied yield has been moving steadily higher in recent months. 2-year US Treasury yields pushed up a further 10.7bp on the comments, reaching 2.682% - but they got as high as 2.72% at one point. 10Y Treasury yields also rose 7.7bp to 2.91%. Higher at a faster rate is a story that is not confined to the US either, with the BoE's Mann also seeming to open up the possibility of a 50bp hike for the Bank of England at their next meeting. Higher rates have hurt the equity market, with the S&P500 down 1.48% yesterday and the NASDAQ down 2.07%. US equity futures are for once not looking to buy on the dip and remain negative, and this is also reflected in Asian equity futures.

In FX space, the EURUSD spiked up to 1.094 at one point yesterday but finished broadly unchanged from the previous day at about 1.0840. The AUDUSD has also fallen back below 0.74 and the JPY is creeping higher again at 128.30. However, the big story in Asian FX was

again the USDCNY, which is now up to 6.45 from 6.30 in early March. Reports of some support for modern monetary theory policies from members of a think tank that is part of China's Ministry of Finance may be no more than coincidence, but if not, could also be consistent with a weaker CNY outlook.

There isn't much on the G-7 macro calendar today, with retail sales in the UK and Canada plus some PMI indices the main releases.

- **India:** Minutes from the 6-8 Reserve Bank of India (RBI) Monetary policy meeting are released later this evening. The RBI did not change any of the key policy rates. However, they did pivot towards tackling inflation and also set up a new floor to their liquidity adjustment facility. This will now be set by a standing deposit facility at 3.75% (just below the policy repo rate of 4.0%) instead of the reverse repo rate (3.35%). We think the RBI will soon have to start a more conventional tightening, and should start pushing the repo rate up before the end of this quarter.
- **Australia:** PMI indices just released show signs of further improvement. The service sector PMI rose to 56.6 from 55.6, the manufacturing PMI rose to 57.9 (from 57.7) taking the composite rate rose to 56.2 (from 55.1).
- **China:** At the Boao forum yesterday, President Xi mentioned three important things for the global economy 1) fighting Covid; 2) Climate change, and 3) Digital security. Most investors may have missed the importance of the third point. We believe that when Xi is labelling digital security as an important point for the economy, not only technology companies, but all companies, especially companies operating in onshore China should be aware of the risks. They will need to invest in digital security to avoid breaking laws and regulations.
- **Japan:** National CPI for March rose to 1.2%YoY (vs 0.9% in February) in line with market expectations. Goods prices including energy rose sharply (0.7%MoM sa) but service prices only edged up by 0.1%. There are no clear signs that rising energy and raw material prices are being passed on to consumer prices. Based on weak demand-side price pressures, the Bank of Japan is expected to justify that its fight against deflation should continue.

Meanwhile, Japan's manufacturing PMI dropped to 53.4 (vs 54.1 in March) as output and new orders fell. Concern about growth will be growing due to worsening global supply chain disruptions. However, the services PMI unexpectedly improved to 50.5 (vs 49.4 in March) as employment rose for three months in a row. The prices charged index fell, which echoes the tame service price increase evident in today's CPI release.

What to look out for: Geopolitical developments

- Japan inflation (22 April)
- Malaysia inflation (22 April)
- Hong Kong inflation (22 April)
- Taiwan unemployment (22 April)
- RBI minutes (22 April)

- US S&P global US PMI manufacturing (22 April)

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