

Asia Morning Bites

Bonds bounce - but demands for RUB payment for Russian gas pushes gas prices higher



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Macro Outlook

- **Global:** Strong demand at yesterday's US Treasury 20Y bond auction pulled yields down across the Treasury curve, undoing some of the previous day's sell-off. 10Y US Treasury yields fell just over 9bp to 2.29%, while 2Y yields went down a little under 7bp to 2.096%. Despite the drop in risk-free rates, US equities sold off yesterday, though in a controlled fashion, with the S&P500 and NASDAQ down respectively 1.2% and 1.3% - small declines by the standards of recent volatility. Currency markets remain a bit bogged down. The benchmark EURUSD is still at about 1.10, though has shown interest pushing lower. The AUD is just below 0.75 vs the USD, and has nosed above it at times, suggesting it will continue to push higher. In Asia, not too much is going on in FX space. The JPY remains weak, but the KRW has recovered some ground over the last 24 hours.

There has been lots of geopolitical noise over the last 24 hours, most notable of which is probably Russian President Putin's decree that gas deliveries would need to be paid for in RUB. This runs counter to some of the efforts from the West to freeze Russia out of international finance, and it is not clear at this point what their response is. European gas prices did spike higher though have now pared their gains slightly.

Data-wise, there is a lot of PMI data out from the G-7 today – European indices will likely exhibit some weakness reflecting the disruptions caused by the Russia-Ukraine war. US durable goods orders top the bill for the US today, though is a second-tier release and probably won't disturb markets.

- **Australia:** Australian PMIs showed gains in both services and manufacturing, according to preliminary March data. The indices have both bounced after a January dip and at healthy levels of 57.9 and 57.3 respectively, indicating a solid quarter for economic growth for 1Q22.
- **China:** The US would like to reinstate tariff exemptions imposed under the Trump administration on around 60% of Chinese goods that were granted exclusions previously. Most of these exemptions expired at the end of 2020. The renewed exemptions will run through to the end of December this year. US businesses have argued that the range of goods in the exclusion list is too narrow. We don't expect too much rebound of trade between China and the US as a result of this.
- **Korea:** A new Governor of the Bank of Korea, Mr. Rhee Chang Yong (Asia/Pacific director at the IMF) has been nominated. It is unclear at this point whether the confirmation process will be completed before the April 14th MPC meeting. We expect Mr Rhee to continue to raise rates when he takes office. Though he has also expressed deep concern about the increased downside risks to the economy from current global volatility. Our initial thought is that he could be a bit more dovish than outgoing Governor Lee. We expect the BoK to resume its rate hikes in May.
- **Japan:** The Jibun Bank manufacturing PMI unexpectedly rebounded to 53.2 in March (vs. 52.7 in February) as output rose to 50.6 (vs. 49.3 in February). However, the forward-looking new orders index fell to its lowest since Sept 2021.

The Bank of Japan released its January policy meeting minutes, which confirmed that the BoJ would maintain its current easing policy, and consider additional easing if necessary.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) will meet to decide on policy today. We do not expect any changes to policy, but we will be on the lookout for any possible shifts in tone from dovish to hawkish. Official inflation forecasts for both 2022 and 2023 will also be the key release today as it could give the BSP some justification to finally adjust rates by 2Q.

What to look out for: Geopolitical developments

- BSP policy meeting (24 March)
- US initial jobless claims and durable goods orders (24 March)
- Singapore industrial production (25 March)
- US University of Michigan sentiment (25 March)

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