Asia Morning Bites

Reports of Russia pullback bolsters sentiment briefly

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Macro outlook

- **Global:** The announcement by Russia that it would shift away from Kyiv and focus on the disputed Donbas region led to some increased market volatility yesterday. Overall though, movements have been fairly muted – suggesting either that markets have not been pricing in too much risk from the Russia-Ukraine war, or that they view this announcement as mainly tactical, with little bearing on the timing of an eventual peace deal. Neither view is mutually exclusive. So we have seen a lot of market surges and plunges, followed by recoveries in the last 24 hours. Most notable was the surge in 2Y UST yields to 2.45% yesterday, briefly overshooting the 10Y yield to deliver 2s10s inversion and more excitement about recession possibilities. The US 2Y yield then declined back to 2.36% to end unchanged on the day. 10Y US Treasury yields are at 2.394%, down 6bp, so the 2s10s curve remains positive, but only 3bp – that probably won't last long. We may also see some decline in 10Y Japanese government bonds, as the BoJ has set out its plans to buy bonds today, with an increased bid for 3-5Y bonds (JPY600bn up from JPY450bn), and for 5-10Y bonds (JPY725bn from JPY425bn) with JPY150bn for 10-25Y bonds, and JPY100bn for 20Y bonds. The 10Y JGB yield is at about 0.243%, only just below the 0.25% upper bound. The BoJ should find it easier to get yields at the long end down today given the latest US moves.

  There was only limited action yesterday in the G-7 macro space. US Conference Board consumer confidence actually held up reasonably given recent rises in gasoline prices, and the present situation index actually beat expectations. However, perhaps the prospect of higher rates is beginning to take a toll, and the forward-looking index fell to its lowest since early 2014.

On the calendar today, the US ADP employment survey will provide an appetizer ahead of Friday's March non-farm payrolls release. And in Germany, we get preliminary March inflation figures, where the headline inflation number will likely jump from 5.5% to a little under 7%YoY. These figures have barely begun to price in the impact of the war in Ukraine, so there is a good chance they go still higher in time.

- **China:** The Shanghai lockdown seems only to be impacting GDP slightly. The 50% rotation lockdown has already limited damage to economic activity. Financial institutions, ports and big factories are operating in a closed-loop mode, which means that their activities will not be substantially affected by this lockdown. Smaller factories and catering will be affected the most. The government has announced relief measures for them. Export delivery could be delayed if positive cases are found in Shanghai's port workers. But that should only affect port operations for about 4 days. After that, lockdowns should be lifted. There are also relief measures for SMEs for rent and tax exemptions. As a result, our forecasts for China's 1Q22 GDP are only revised slightly lower to 2.28%YoY from 2.5%YoY.

- **Japan:** February retail sales fell -0.8% MoM, the third consecutive monthly decline, and worse than the market consensus of -0.3%. This is mostly due to the latest surge in Omicron cases, as operation hours of restaurants and other services were shortened. The weak monthly activity data supports our view of Japan's growth contraction for this quarter.

What to look out for: Geopolitical developments

- Japan retail sales (30 March)
- Bank of Thailand policy meeting (30 March)
- US ADP employment, 4Q GDP, core PCE QoQ (30 March)
- South Korea industrial production (31 March)
- China manufacturing and non-manufacturing PMI (31 March)
- Thailand trade balance (31 March)
- Hong Kong retail sales (31 March)
- US initial jobless claims (31 March)
- Japan tankan survey (1 April)
- South Korea trade balance (1 April)
- China Caixin PMI manufacturing (1 April)
- Indonesia CPI inflation (1 April)
- US non-farm payrolls, ISM manufacturing (1 April)

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