

Good MornING Asia - 2 February 2018

US labour market data can still shake markets, but current movements seem much more momentum driven

In this bundle



Calm before the payrolls storm

US labour market data can still shake markets, but current movements seem much more momentum driven

By Robert Carnell



China

Happy Chinese Yuan

We are revising our forecast on USDCNY to 6.10 from 6.30 for 2018. This is mostly because of the weak dollar and the demand from exporters before the...



Indonesia

Indonesia: Steady monetary policy despite slower January inflation

Inflation slowed In January to 3.25%, lower than consensus and December's 3.6%. We believe that slower inflation does not necessarily mean monetary...



Philippines

Philippines: Surprisingly high central bank January inflation forecast

The central bank of the Philippines (BSP) expects January inflation at between 3.5% and 4%, the highest inflation forecast since November 2014, due to...

Opinion | 1 February 2018

Calm before the payrolls storm

US labour market data can still shake markets, but current movements seem much more momentum driven



Source: bubble

Back to the bond rout?

A quick chart of recent bond yield changes on the 10Y US Treasury looks not unlike the run-up of US house prices in 2005/2006, or the pre-correction bitcoin price moves. Indeed, on the sort of standard relative strength indicators available on some well-known news packages, it is sending a classic oversold signal. But that ignores the scope for actual fundamental data to play a role in the near term. In terms of fundamental support for markets, US tech earnings have been mixed to disappointing in the last few days, which may weigh on an equity market that has been relatively resilient overnight against the backdrop of rapidly rising bond yields, and could have weighed back on bond yields if equity indices had begun to falter more significantly. Offsetting this, rising US PPI data and red-hot manufacturing surveys provide some inflationary offset that would have helped push bond yields back up again.

As for today's US labour report....? In my opinion, this is the most over-watched and over-rated piece of economic data on the planet. But that does not stop the market from scrutinizing every number. For what its worth (and that is admittedly not much) I like our house call of further weak wages numbers (2.4%YoY - there are some calendar timing issues on the wages front with this survey), though the payrolls employment change headline could well surprise on the upside. For me, the wages data should dominate market reactions.

If what we are seeing in terms of market price movements reflects a rebalancing of portfolio investment away from US assets (notably bonds) towards European government bonds (German sovereign yields continue to nose slowly higher and away from zero, helped by taper comments from ECB Board member, Nowotny overnight), then the recent trend of USD weakness, EUR strength, Asian currency strength, UST sell-off, EU government bond more gradual sell-off is likely to continue. What is less clear is how stocks fit into this pattern. Though they may well get spooked if the bond yield ascent does not slow soon.

What about the call by a well-known US private financial institution to look for 3.0% on the US 10Y. Never say never, but this probably is a better reflection of that institution's internal positioning, than a fundamentally-backed analysis. Still, it's only a little over 20bp off, so it is hardly a bold call.

Aside from payrolls, it is a quiet day on the global calendar. And it is quiet in Asia too, although Bank of Japan bond purchases could be worth watching later this morning as the 10YJGB yield nears 0.1%.

Happy (hopefully lazy) Friday!

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Happy Chinese Yuan

We are revising our forecast on USDCNY to 6.10 from 6.30 for 2018. This is mostly because of the weak dollar and the demand from exporters before the...



Dollars surrounded by Chinese yuan

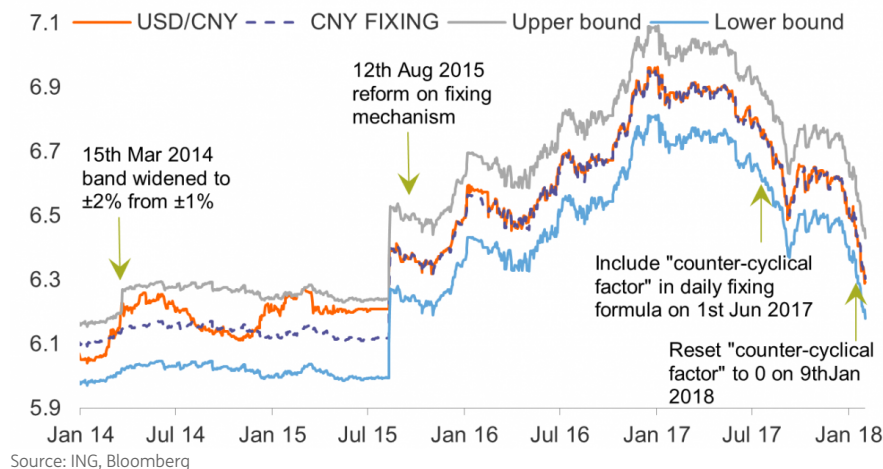
Strong yuan, weak dollar

USDCNY passed the psychological level of 6.30 on 31st January 2018. So far, the appreciation of the yuan is mostly driven by dollar weakness.

This has become more obvious since the central bank reset the counter-cyclical factor to zero in the daily fixing mechanism. It implicitly means that the yuan would move more according to market forces.

Moreover, domestic economic data has had little impact on the exchange rate. For example, the official manufacturing PMI was lower in January compared to December even though January is not the month of Chinese New Year. That shows a bit of slackness in manufacturing. This did not stop the yuan in January achieving the fastest rate of monthly appreciation in 10 years.

Resetting the counter cyclical factor to zero means that USDCNY will now more closely follow market forces



Chinese exporters hurry to convert dollar into yuan

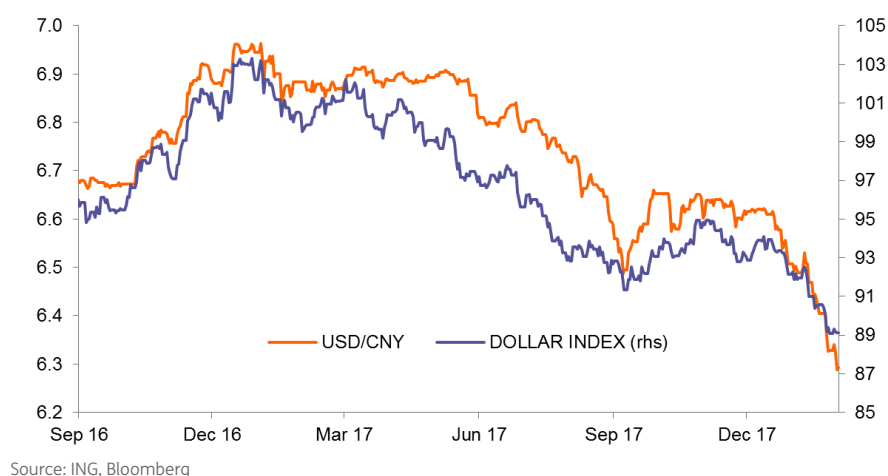
With the quick fall in the dollar, exporters might chase after the trend to convert their dollar receipts into yuan. This may look illogical but could happen if exporters believe that the yuan will continue to strengthen, meaning they could get even fewer yuan later.

This factor could give the yuan an extra push nearer the Chinese New Year when the exporters need to pay "bonuses" to their employees before they return home for the Chinese New Year.

We forecast USD/CNY of 6.10 by end 2018

Due to the dollar weakness and the reasons stated above, we revise our forecast of USD/CNY to 6.10 by the end of 2018, which is equivalent to around 6% appreciation for the year.

The dollar index is talking the lead of USD/CNY



Any possibility of central bank intervention in the USD/CNY market?

We do not believe that the central bank has a strong view on a particular level of USD/CNY that it would come into the market to intervene.

It is more about the speed of appreciation if the central bank deems to intervene.

A yuan appreciation that is too fast would attract not only "normal" investment money into China but also "hot money" that would easily turn into "hot outflows" when the yuan depreciates.

As such, we expect that the central bank may monitor which assets the money inflows are invested in. When there are hot money inflows, the central bank may work with other financial regulators to step in to stop it.

Indonesia: Steady monetary policy despite slower January inflation

Inflation slowed in January to 3.25%, lower than consensus and December's 3.6%. We believe that slower inflation does not necessarily mean monetary...



IDR

3.35%

January inflation rate

Monetary policy is likely to remain steady in 2018

Better than expected

Slower inflation does not necessarily mean monetary policy easing.

Inflation in January moderated due to a significant slowing of transport, healthcare, and housing prices. Slower inflation rates for these components offset rising food and clothing prices, which accounted for the upside surprise of December inflation. We believe that there are no compelling reasons for the central bank (BI) to alter policy rates this year. Inflation could turn higher later in the year due to rising household spending and higher global commodity prices despite favorable base effects until August. We expect inflation to average 3.7% this year, which is above BI's point

inflation target of 3.5% but within its target range of 2.5% to 4.5%. Moderate inflation would also support the recovery of household spending while spending on regional elections and higher government construction activity would contribute to meeting BI's growth forecast of 5.1% to 5.5%. IDR, a BI concern also, is likely to be prone to weakness as US interest rates rise. We believe that BI will keep policy rates steady.

Philippines: Surprisingly high central bank January inflation forecast

The central bank of the Philippines (BSP) expects January inflation at between 3.5% and 4%, the highest inflation forecast since November 2014, due to...



3.5%-4%

BSP's January inflation forecast

Surprisingly high

A precursor to an early tightening?

BSP surprised markets with its 3.5-4% January inflation forecast, which is higher than government's 3.3% forecast. We expect a moderate impact of higher excise taxes from the tax reform package in the first month of implementation. We forecast a 3.4% January inflation rate. With such a high January inflation forecast, the market may become worried that inflation will accelerate faster than expected in the coming months. Second round effects are still to be determined in March-June. Significant second-round effects could cause inflation to breach the target range of 2% to 4%. An inflation report this coming Tuesday that is in line with BSP's forecast could raise inflation expectations which may spur BSP to tighten as early as the March meeting.

Our base case is for a rate hike at the May meeting.

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.