

Good MornING Asia - 25 March, 2019

I thought that politics, not markets would be the key focus this week, with the release of the Mueller probe, a big week for Brexit in the UK and elections in Thailand. But markets have grabbed the headlines on their own with a big inverting rally of long term US Treasuries starting on Friday last week.

In this bundle



US Treasury curve inverts

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General market tone: Risk off. Global growth fears are seen to weigh on sentiment on Monday as US and China trade talks resume in Beijing.

By Nicholas Mapa and Robert Carnell

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Mueller report out, but bond market steals the limelight

After two years, many subpoenas and a bunch of convictions, the Mueller Report into alleged collusion by US President Trump and his team with Russia at the last election has not found any evidence to uphold such a claim. This is a good day politically for the US President, but it has been largely overlooked by markets. Instead, a bond yield frenzy has helped drag the USD down below 1.13, as bond yields on the 10Y US Treasury fell to new lows for the year, reaching 2.43% over the weekend. The yield on a 3m T-bill is no higher, so on this measure, the yield curve has inverted, though 2Y US Treasury yields remain about 12-13bp lower than their 10-year counterpart, so the 2s10s curve still has a positive slope.

No doubt the next reading of the NY Fed's recession probability index will move sharply higher (currently 24.6% probability of a recession in 12 months time) and may well even exceed 50%. But as our own research has suggested, such models are sensitive to the sampling period, longer tenor bond yields themselves are a tainted measure post-quantitative easing, and we suspect that drawing a recession conclusion from such data is not warranted until the 3M-10Y yield curve is inverted by a substantial amount. Just inverted as today's markets indicate, doesn't do it for me.

UK - take me to your leader

Although UK PM Theresa May remains the country's leader today, she does not seem to be in power, and today, MPs will vote to take control of the parliamentary agenda. Debate on the way forward on Brexit will follow, with indicative voting expected by Wednesday on alternatives that could include (according to the weekend FT):

- PM May's deal (if allowed to be submitted)
- May's deal with bolted on Customs Union
- May deal plus Customs Union and the single market
- No Deal
- Second referendum
- Revoking article 50.

A petition urging the UK to remain a part of the EU has now attracted 5 million signatures (I signed) and around a million people marched in London according to its organizers, to protest against Brexit. That said unless the petition can get close to the 17.4million votes that were cast in favour of Brexit at the referendum, I doubt it will change things much. To me, it still looks like the UK is leaving the EU, it just isn't yet clear how or when. Maybe this week will throw up more answers. But we've said that before...

Thai elections - not a clean result

Much as expected, the pro-Military party - Palang Pracharat is leading in the popular vote of the election that occurred this weekend with the majority of votes now counted. But opposition party, Pheu Thai, the pro-Thaksin party, look as if they will win more seats, and it is unclear whether incumbent PM Prayut Chan-o-cha, will be able to get enough seats to remain in charge (he needs 126 assuming the 250-strong military-chosen Senate all support him). We expect to get greater clarity later, when 150 "party seats" are allocated under a complicated formula based on votes cast, which tends to favour smaller parties. These may provide Parayu with the additional support he needs to govern.

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ASEAN Morning Bytes

General market tone: Risk off. Global growth fears are seen to weigh on sentiment on Monday as US and China trade talks resume in Beijing.



EM Space: US officials troop to Beijing to jumpstart trade talks

- **General Asia:** Market will be reeling from renewed global growth concerns with manufacturing numbers from major economies softer amidst the ongoing trade dispute. Investors will also be anxiously monitoring trade negotiations as talks shift over to Beijing.
- **Indonesia:** Bank Indonesia has projected March inflation to settle at 2.47% or a 0.1% month-on-month inflation, right below the central bank's 2.5-4.5% inflation target for the year. Inflation dynamics have largely been subdued ahead of the election after President Jokowi allowed the importation of foodstuffs to help augment domestic supply. Governor Warjiyo indicated that "inflation is at a low rate and tending to decline".
- **Philippines:** The Bangko Sentral ng Pilipinas (BSP) expects inflation to decline until 4Q and stabilize at around 3% until 2020 on base effects. Deputy Governor Guinigundo, a known hawk however continues to rule out any form of easing in the near term, either through RRR cuts or policy rate reductions.
- **Thailand:** Thai election results are not yet clear as opposition party Pheu Thai gains more seats on a lower share of the popular vote. PM Prayut's continued rule likely to depend on support from other smaller parties.

What to look out for: US China trade talks in Beijing

- Singapore inflation (25 March)
- Taiwan industrial production (25 March)
- Singapore industrial production (26 March)
- Hong Kong Trade (26 March)
- US consumer confidence (26 March)
- US trade (27 March)
- US core PCE and GDP (28 March)

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