

## Good MornING Asia - 26 February 2021

As 10Y US Treasuries briefly touch 1.6% yesterday, Asia will be feeling the effects today

### In this bundle



Australia | India...

#### Asia-Pacific not immune to Treasury rout

As 10Y US Treasuries briefly touch 1.6% yesterday, Asia will be feeling the effects today

By Robert Carnell



Asia week ahead

#### Asia week ahead: China's annual rite of spring

China returns to the limelight as it's top legislative body sets out economic targets and policies for the year. Elsewhere in the region, monetary...



South Korea

#### Bank of Korea raises inflation forecast

The Bank of Korea (BoK) left its policy 7-day repo rate unchanged today at 0.5%, but raised its forecast for 2021 inflation to 1.3%.

Governor Lee does not...

By Robert Carnell

## Asia-Pacific not immune to Treasury rout

As 10Y US Treasuries briefly touch 1.6% yesterday, Asia will be feeling the effects today



Source: shutterstock  
Treasuries

### US Treasury reach is huge

Years ago, and I am literally talking decades here, a colleague recommended an article called something like, "Everything you need to know about markets". I don't remember the author. Perhaps my colleague was trying to tell me something...?

The key message I took from it was this, the US treasury market accounts for about 80% of the variance of all other markets. I'm not sure if this was exclusive to other bond markets, or all other markets, but even if only bond markets, it was a useful snippet, and one I have relied on since. The variance may have changed, but even if it has fallen, I'm sure it still remains huge.

So the news that 10Y US Treasuries had hit 1.6% intraday yesterday has big implications for Asia.

Japan: The 10Y benchmark Japanese Government bond (10Y JGB) has pushed up to 0.155%, a yield where the BoJ has intervened in the past to pull yields back towards their 0.0% target. The rationale for them to do this is highly questionable with a large chunk of the population reliant on savings income, and back in January, BoJ Governor Kuroda suggested the BoJ might be warming to ideas of allowing the JGB yield to fluctuate in a wider band than previously, possibly with a view to the effect of such intervention on the super-long end of the yield curve where savers are typically parked. So intervention is not guaranteed because of the current yield, though they and

other central banks may well take offense at the speed of recent moves. It's not impossible to imagine a hurried G-7 phone call to ask for some co-ordinated intervention, if only oral, to calm things down.

Australia: The Reserve Bank of Australia (RBA) has a yield curve control policy aimed at the 3Y government bond, and has recently extended its QE purchases of the rest of the curve, on which it will now be nursing sizeable losses. 10Y Australian government bonds are now yielding more than 1.90%, almost a full percentage point higher than at the start of the year, and a bigger sell-off than in the comparable US Treasury. 3-year yields are up 0.105%. It would not be unthinkable for the RBA to step up its asset purchasing as part of an effort to calm its own markets, though on its own, we doubt it would achieve much - free money for traders some might argue. Conversely, this might also be argued to be a reasonable correction with comments from NZ politicians recently aimed at their central bank, arguing that they should take into account soaring house prices into their rate deliberations. Something for the RBA to consider also...?

Indonesia: A 33bp rise in the benchmark 10Y Indon to 6.49% from the beginning of the year is not a pure US Treasury effect, with some IDR currency weakness concerns probably also hanging over local currency government bond yields, especially following the recent, and somewhat controversial rate cut decision by Bank Indonesia. For a central bank that dabbled with unorthodox monetary policies during the height of the pandemic, we wouldn't rule out anything from BI at this point.

Philippines: And in the Philippines, the central bank (BSP) also undertook low-level unorthodox policy measures in 2020. With a local inflation issue (even though mainly food), they might also see some merit in weighing on bond yields, with the benchmark 10Y local currency yield currently at about 2.2%, up about 49bp from the beginning of the year.

Korea: Korea's central bank (BoK) left rates on hold this week, but we suspect they might be less upset to see bond yields rising than some other central banks in the region, noting the rise in household debt and widespread house price gains in their recent statement. 10Y KTB yields have been rising, but at a very sedate and steady pace since the beginning of the year, with the 10Y now at 1.917%, up from 1.677% at the beginning of the year.

So, a lot to look forward to today, and tonight's US Treasury and equity market price action promises to make it an interesting start to Asian markets next week.

## Powell is right, it is a mark of confidence

In attempting to calm markets, Fed Chair, Jerome Powell has made much of the fact that the rise in bond yields is a mark of confidence in the economy. He's not wrong, though I suspect this will come as scant consolation if your 401K is limit long NASDAQ shares.

I updated a little spreadsheet of bond yield composition this morning (which I can't share in this note unfortunately due to licensing issues) but which shows that since 1 Jan 2021, real yield increases account for about 45bp of the total rise in the US Treasury yields, with inflation expectations only about 15bp, (and dropping in recent days).

You may also remember that I have been musing whether the rise in Treasury yields would provide some support to the USD, given that front-end yields are virtually locked down by central bank policy (more on that in a minute). And somewhat disappointingly, I can confirm that this still does

not get convincing support from my correlation chart. With a macroeconomist's hat on, looking at yesterday's price action across asset classes, it was almost as if investors started with a "sell US assets" mentality before going "Blimey, look at the yield on that!", and became buyers again.

There was also some confusing price action in Asian FX, where the JPY weakened despite what appeared to be a fairly clear risk-off market. Bitcoin was also pressured - maybe being sold to cover losses elsewhere, and also potentially a victim to rising real USD yields, like gold.

I mentioned the front end of the yield curve - well, it may not be so locked down as you would think. 2Y US Treasury yields rose more than 4bp yesterday, and looking at even shorter maturities, the fed funds futures market was this morning fully pricing in a 25bp Fed funds rate by Feb 2023, and very nearly by January 2023. So there is a challenge here from markets to the Fed, which claims that rates will not rise until 2024 at the earliest, and is also apparently not even thinking about altering its asset purchase stance. The market pricing can be interpreted as a rather sarcastic "Sure!".

## Calendar today - busier!

The G-7 offers us a bit more interest today if you can stay awake that long. We have US personal income and spending figures for January today, which comes with the latest measures of PCE inflation, which will be topical, especially as the consensus is for the Fed's preferred inflation measure to decline to 1.4% from 1.5%. There could be an ugly mess if that doesn't happen.

And we also get the University of Michigan consumer confidence figures, which come complete with their very own inflation expectations series. Last month, the 1-year ahead series spiked up to 3.3%, in line more or less with our own house expectation for peak US inflation in 2021.

Here in Asia, we have 4Q Indian GDP. Prakash Sakpal writes: "We expect the year-on-year GDP contraction to moderate to -4.7% from -7.5% in the previous quarter, though this is at odds with the consensus of slightly positive growth. GDP growth of the majority of Asian economies stayed negative through the end of 2020. It's hard to imagine the Indian economy turning the corner to positive growth just yet. India suffered the worst-ever 24% YoY collapse in 2Q20 at the height of the Covid-19 crisis. We don't think the impact of such a huge blow will have faded so quickly. We anticipate one more quarter of YoY GDP contraction in the current quarter before low base effects lift GDP to positive growth in 2Q21. Even as macro policies remain accommodative, the official target of 11% GDP growth in FY2021-22 appears optimistic.

And in Singapore, January's industrial production figures will shed light on where GDP growth is headed in the current quarter. A surprisingly strong 13% YoY surge in January non-oil domestic exports augurs well for IP growth. However, after double-digit year-on-year surges in the previous two months, some retracement seems to be in order on the back of a high base year effect. Hence our forecast of a slowdown to 6.4% YoY in January from 14.3% in December. The MAS's shift a year ago to a neutral monetary policy targeting zero appreciation of S\$-NEER has served well for the export-driven recovery. There are no compelling grounds for them to change this policy stance in 2021".

## Author

**Robert Carnell**

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

# Asia week ahead: China's annual rite of spring

China returns to the limelight as its top legislative body sets out economic targets and policies for the year. Elsewhere in the region, monetary...



Source: Shutterstock

## ➔ China Two Sessions

Top government officials from all over China will gather in Beijing for the annual rite of spring - the Chinese People's Political Consultative Conference and the National People's Congress sessions to be held on 4th and 5th March respectively.

The typical focus in these meetings is Premier Li Keqiang's work report due on 5th March, as well as speeches by the heads of the central bank and other regulatory bodies, which set out economic targets for the year - GDP growth, inflation, money supply, bank lending, etc. - and also policy

changes required to achieve these targets.

[Here](#) is what our greater China Economist Iris Pang expects from Two Sessions this year, which marks the first year of China's 14th five year plan. Iris expects them to omit the GDP growth target once again this year.

[China: What to expect from the 'Two Sessions'](#)

## ➔ Monetary policies

Australia and Malaysia's central banks are scheduled to hold their policy meetings.

Having eased via expanded quantitative easing in early February, we don't think the Reserve Bank of Australia will have another policy move in the pipeline just yet. Australia's 4Q20 GDP report due a day after the central bank meeting would be rather interesting. We are looking for a moderate year-on-year GDP contraction in the last quarter, by -2.0% than -3.8% in 3Q.

Malaysia's central bank has been defying the easing pressure even as tighter Covid-19 movement restrictions are poised to hit the economy hard in the current quarter. It should have more reasons to do so following the release of January CPI data showing a significant improvement in inflation, to -0.2% YoY from -1.4% in December. We have dropped our call of a 25bp rate cut in March and shifted to a stable policy view for the rest of the year.

Lots of February inflation figures from Korea, Indonesia, the Philippines and Thailand should help to condition expectations of monetary policies by the respective central banks. We are watching if the Korean data attests to the latest upward revision by the Bank of Korea to its 2021 inflation view to 1.3% from 1.0%.

[Read](#) our Asia Chief Economist Rob Carnell's thinking on the BoK policy. Indonesia has been experiencing the lowest inflation in more than two decades while the Philippines' inflation numbers have surged past the central bank's 2-4% policy target in January, the trends likely persisted in February.

The latest notes by our [Indonesia](#) and the [Philippines](#) watcher Nicholas Mapa shed light on the monetary policy path in these countries.

[Indonesian central bank cuts policy rates as growth momentum fades](#)

[Philippines inflation breaches target in January but BSP not likely to react next week](#)

## ➔ Activity releases

Markets will also be busy watching the usual start-of-the-month activity releases on trade and manufacturing for guidance on the path of post-Covid-19 economic recovery this year. Indeed, the electronics-led exports upturn is leading the way out of the record slump of last year but we'll find out if the momentum is sustained from Korea's exports figures for February, the first of the month from the region. It probably did, given our house forecast of a 17% YoY export growth.

Also widely watched around this time of the month are the purchasing managers indices (PMIs), both for manufacturing and non-manufacturing sectors.

China's official PMIs to be released over this weekend will set the tone here.

## Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
<b>Sunday 28 February</b>					
China	0100	Feb Official manufacturing PMI	45.0		51.3
	0100	Feb Official non-manufacturing PMI	52.5		52.4
<b>Monday 1 March</b>					
China	0145	Feb Caixin Manufacturing PMI Final	45.0		51.5
India	0500	Feb IHS Markit Manufacturing PMI	-	57.5	57.7
		- Feb Trade Deficit Govt -USD Prelim	-		14.54
		- Feb Imports - USD Prelim	-		27.45
		- Feb Exports - USD Prelim	-		27.45
Malaysia	0030	Feb IHS Markit Manufacturing PMI	-		48.9
Indonesia	0030	Feb IHS Markit PMI	-		52.2
		- Feb Inflation (MoM/YoY%)	-		0.26/1.55
		- Feb Core Inflation (YoY%)	-		1.56
Philippines	0030	Feb Manufacturing PMI SA	-		52.5
Thailand	0030	Feb Manufacturing PMI SA	-		49.0
South Korea	0000	Feb Export Growth Prelim	17.3		11.4
	0000	Feb Import Growth Prelim	24.4		3.6
	0000	Feb Trade Balance Prelim	2000		3.76
	2300	Jan Industrial Output (YoY%)	-		3.4
	2300	Jan Service Sector Output Growth	-		-1.1
	2300	Jan Industrial Output Growth	-		3.7
<b>Tuesday 2 March</b>					
Singapore	1300	Feb Manufacturing PMI	-		50.7
Taiwan	0030	Feb IHS Markit Manufacturing PMI	49.0		60.2
South Korea	0030	Feb IHS Markit Manufacturing PMI	53.4		53.2
<b>Wednesday 3 March</b>					
China	0145	Feb Caixin Services PMI	-		52
India	0500	Feb IHS Markit Services PMI	-	53.2	52.8
Hong Kong	0030	Feb IHS Markit PMI	-		47.8
	0830	Jan Retail Sales (YoY%)	-11.4		-13.2
South Korea	2300	Feb CPI inflation (YoY%)	0.9		0.6
	2300	Feb CPI inflation - core (YoY%)	0.5		0.9
	2300	Q4 GDP Growth (QoQ/YoY%) Revised	1.1/-1.4		1.1/-1.4
<b>Thursday 4 March</b>					
China	-	Annual CPPCC session	-		52
Malaysia	0700	BNM O/N Policy Rate (%)	1.75		1.75
Indonesia	-	Feb Consumer Confidence Index	-		84.9
Thailand	0300	Feb Consumer Confidence Index	-		47.8
<b>Friday 5 March</b>					
China	-	Annual NPC session starts	-		52
Indonesia	-	Jan Retail Sales Index (YoY%)	-		-19.2
Philippines	0100	Feb CPI (MoM/YoY%)	-		1.3/4.2
	0100	Feb Core CPI (YoY%)	-		3.4
	-	Feb Forex Reserves USD	-		108.8
Singapore	0500	Jan Retail Sales (MoM/YoY%)	-2.3/-4.4		-0.9/-3.6
Taiwan	0820	Feb Foreign Exchange Reserve	544		541.481
Thailand	-	Feb CPI Headline Inflation (YoY%)	-0.2		-0.34
	-	Feb CPI Core Inflation (YoY%)	0.2		0.21

Source: ING, Refinitiv, \*GMT



## Bank of Korea raises inflation forecast

The Bank of Korea (BoK) left its policy 7-day repo rate unchanged today at 0.5%, but raised its forecast for 2021 inflation to 1.3%. Governor Lee does not...



Source: Shutterstock

**1.3%** 2021 inflation  
BoK forecast

### Time to take a new look at the numbers

Leaving the policy 7-day repo rate unchanged, the BoK did revise higher their inflation forecast for 2021, taking it from 1.0% to 1.3%. This is exactly in line with our own full-year forecast for the year and makes us wonder if we shouldn't take a re-look, with a view to pushing it a little higher. Rising oil prices, and rising prices of electronics for which demand remains strong, will push up prices on a number of manufactured goods. So some further upward revision to our own forecasts seems like it may be worth a look.

Beyond this, the BoK's assessment of the economic recovery remained broadly in line with their November assessment, as "moderate". Consumer spending remained weak, let down recently by very poor labour market data, while the export and investment sides of the economy

remain buoyant. The 3% BoK forecast for GDP growth in 2021 is unchanged from their November meeting and a bit stronger than our own 2.6% full-year 2021 GDP forecast.

With domestic weakness persisting, the continued ramp-up of household debt and strongly rising house prices - no longer just a Seoul phenomenon - hints at imbalances in this economy, and is one reason why we believe S Korea could be one of the first countries in Asia to begin to remove monetary accommodation, though we believe it is extremely unlikely to do so this year. Next year, however, remains a realistic possibility, especially if vaccine rollout in Korea is well advanced by then.

## Author

### Robert Carnell

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

## 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>.