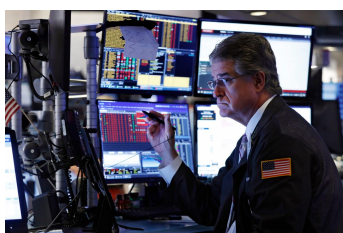


## Good MornING Asia - 31 May 2021

From currencies to bonds, markets have been rangebound for weeks - this could be about to change

### In this bundle



China | India...

#### Rangebound markets - time for a change

From currencies to bonds, markets have been rangebound for weeks - this could be about to change

By Robert Carnell



Asia Morning Bites

#### ASEAN Morning Bytes

Asian markets to edge up cautiously with an eye on upcoming data reports.

By Nicholas Mapa

# Rangebound markets - time for a change

From currencies to bonds, markets have been rangebound for weeks - this could be about to change



Source: Shutterstock

## Don't blame the data

I can't be alone in feeling a sense of disappointment that the big surge in inflation data that has been seen in a number of economies worldwide, but most notably, in the US, has not resulted in a stronger response from markets. Both the last two US CPI releases have come in much stronger than even the aggressive increases pointed to by the consensus of forecasters. And last Friday, so did the Fed's preferred PCE inflation metric, at both headline and core measures. US PCE inflation now stands at 3.6%YoY, core PCE inflation at 3.1 %. And neither CPI nor PCE has probably peaked yet.

Yet despite this, 10Y US Treasury yields actually finished lower on Friday. What's going on?

One explanation is that the so-called tantrum many market watchers have been anticipating has already happened. The big lift in US Treasury yields started in early August last year, when yields on the 10Y Government bond started rising from about 0.51%, prompted by optimistic expectations of vaccine rollout and a re-opened economy. Those expectations have now been met to a large degree in the US, though not so convincingly elsewhere in the world, and even in the US, this was not a straightforward process and took longer than expected.

There was also considerable optimism around the turn of the year, and following the US election,

that President Biden would roll out a massive stimulus plan. Substantial fiscal stimulus has been forthcoming, and more will likely follow, but perhaps not to the degree or to a rapid enough timetable to satisfy some bond bears.

## Payrolls week offers the possibility of directional surprise...

A further factor keeping bond yields in check, together with ongoing Fed asset purchases, is the rhetoric of the Federal Open Market Committee members, which seemed to unify around the mantra of "patience and caution" a few months ago when the bond sell-off was not looking as stale as it does today. Whether or not you buy the Fed's claims that rates will not be raised until 2024 at the earliest (and as a house, we don't), such unified rhetoric can't have failed to have some dampening effect on the market. What concerns me is what happens when that rhetoric starts to look a bit less unified, as it is starting to do now, with "...talk about talk about tapering..." starting to gain volume. Though if an announcement on an asset purchase taper is going to be unleashed at the Jackson Hole conference this August, then it is the worst kept secret in financial markets, and might well already be in the price.

On the inflation side, as noted earlier, the news has been every bit as strong as expected, and in most cases stronger. And what we see in terms of the breakdown of US bond yields is that inflation expectations, although off a bit from their recent highs, have shown a steady increase from their March 2020 lows. What has not been so steady has been the increase in real yields - a proxy for real growth expectations. As well as doubts creeping in about the pace and extent of stimulus spending, we also have bottlenecks in supply becoming more evident as economies re-open. A glaring example of this was last month's US payrolls release, where a 1 million expected jobs gain on the month was met by an actual gain of only 266 thousand. Further indicators that employers are finding it hard to fill vacancies are easy to find and have not abated. But non-farm payrolls is a highly flawed measure of employment, and with new data due this Friday, amidst a week of thin markets with US and UK holidays, there is at least a chance of a reverse surprise, which could give the real yield part of the bond market a jolt. The current consensus for this next payrolls release is for 650 million jobs to be created, and we will get plenty of pointers along the way towards the Friday releases - including the non-manufacturing ISM employment index as well as ADP to show us whether this is looking plausible or not. Not that any of these are at all reliable...

## It's not just the bond market

It's not just the bond market where prices have been rangebound. Currencies have also exhibited a distinct lack of direction, though with one or two exceptions, the CNY in the APAC region for one, though that is now seeming to catch the attention of the Chinese authorities who are weighing in with soft verbal intervention now, and may well step in harder if markets do not heed the carefully placed warnings from various official sources - the latest warning that a strong currency need not be associated with strong equity markets.

But in terms of the majors, and in particular, the EURUSD, the range is very much still in place. Indeed, recent price action seems to suggest that neither USD bulls nor bears can convincingly push the currency outside its current range, though at some point, a break looks likely. Which way this will go remains an open question. Our house view for further USD weakness through the year-end as EUR vaccination roll out and re-opening gathers pace is one side of the coin and one that likely co-exists with calm financial market conditions. An alternative viewpoint would likely see risk assets selling off, perhaps in the face of higher and more persistent inflation than previously

expected, which would tend to favour the USD more. Either way, any move when it comes could be dramatic, as tugs of war rarely end without one side falling face down in the mud.

## Meanwhile in Asia

It is going to be a busy start to the week here in Asia. Japan and South Korea have already released industrial production data for April, with the Japanese numbers disappointing expectations a little, but the Korean numbers beating them. Both sets of data are supported by weak base comparisons and show production growth of 15.4%YoY (Japan) and 12.4%YoY (Korea). Japanese retail sales for April fell by a greater than expected 4.5%MoM and will doubtless remain under pressure as states of emergency are extended ahead of the Tokyo Olympics. This doesn't bode well for 2Q21 GDP growth.

There's an awful lot happening elsewhere in Asia, as Prakash Sakpal notes, starting with Indian GDP. "The GDP report for Jan-Mar 2021, the fourth quarter of the financial year (FY) 2020-21, arrives today and will be an important input for the Reserve Bank of India's Monetary Policy Committee conducting its bi-monthly policy review this week (decision due on Thursday, 3 June). We are looking for a 1.7% YoY GDP growth in the reporting quarter, up from 0.4% in the previous quarter and helped mainly by low base effects. This will imply a full-year FY20-21 GDP fall of -7.2%. The more severe Covid-19 second wave is set to cause more damage to the economy in the current quarter, while the recovery from this wave is also likely to be slower than the first one. It's a delicate policy balance for the RBI - reviving growth without further stoking inflation. As elevated inflation prevents the RBI from cutting policy interest rates further, easing via liquidity support remains their most viable option. We believe Governor Shaktikanta Das will reaffirm this in his policy announcement this week.

Elsewhere, we have an update from Singapore's PM Lee on the government's pandemic measures later today, further Malaysian lockdown measures to consider, and Thai trade data. For more on **these** topics, [please see our sister publication Asean Bytes](#).

## Author

### Robert Carnell

Regional Head of Research, Asia-Pacific

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

## ASEAN Morning Bytes

Asian markets to edge up cautiously with an eye on upcoming data reports.



### EM Space: Important data reports to help dictate direction this week

- **General Asia:** Asian markets may edge higher on hopes for global growth although inflation concerns will continue to cap any upside gains. Investors are now warily awaiting economic data reports on global manufacturing activity as well as US jobs market data on Friday while several Fed speakers are scheduled to deliver separate remarks during the week. Market participants will likely await more direction from these developments before making substantial moves.
- **Thailand:** The April manufacturing and balance of payments reports are due today. Our forecast for manufacturing is for 14% YoY growth and for the current account balance is a - \$1.4 billion deficit (4.1% YoY and -\$806 million in March) - both in line with market expectations. Firmer exports and low base effects support the acceleration of manufacturing growth, while a narrower trade surplus and continued lack of tourism receipts are behind the deteriorating current account. Weak economic fundamentals will keep the THB as one of Asia's worst-performing currencies this year; the 4.2% year-to-date depreciation against the USD is the second-weakest in Asia after the JPY's 6% decline.
- **Singapore:** Prime Minister Lee Hsien Loong is going to update the nation today on the Covid-19 situation as community cases remain elevated albeit stabilizing in recent days. His



address will shed light on the government's strategy to keep the pandemic under control and may provide hints as to what follows the Phase-2 restrictions after they end on 13 June. Meanwhile, Finance Minister Lawrence Wong last Friday announced an additional S\$800 million support package for businesses and workers. He also assured that the current tighter restrictions were having effects in reining in the spread and no further tightening was needed. This is positive news for the local markets.

- **Malaysia:** The Covid-19 outbreak shows no signs of subsiding as daily new cases surged to a fresh record of over 9000 yesterday. The government last Friday announced a total lockdown throughout the country for two weeks starting tomorrow, 1 June. The closure of everything other than essential economic and service sectors will mean a significant hit to the economy in the current quarter, prompting another revision of our 2Q21 GDP growth forecast, currently 13.9% YoY, for a further downgrade. The MYR is poised to end May as Asia's weakest currency with over 1% depreciation.

## What to look out for: Covid-19 developments

- China manufacturing and non-manufacturing PMI (31 May)
- Thailand trade balance (31 May)
- Philippines bank lending and money supply (31 May)
- Regional PMI manufacturing (1 June)
- China Caixin PMI manufacturing (1 June)
- US ISM manufacturing (1 June)
- Indonesia CPI inflation and PMI manufacturing (2 June)
- Singapore PMI (2 June)
- China Caixin PMI services (3 June)
- US ADP employment, ISM services and initial jobless claims (3 June)
- Philippines CPI inflation (4 June)
- Thailand CPI inflation (4 June)
- Singapore retail sales (4 June)
- Taiwan GDP (4 June)
- US non-farm payrolls and durable goods orders (4 June)

### Author

#### Nicholas Mapa

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@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>.