Opinion | 8 November 2021

A cacophony of central bank chat

Except for some 3Q21 Philippine GDP, business surveys from Australia and Japanese wage data, the APAC economy calendar is relatively muted, though the vacuum is being filled with the chatter of commentary from G-7 Central bankers

noise dog

Source: shutterstock

More noise, less direction

Tuesday has kicked off in the APAC region with some strong NAB business survey data from Australia, vindicating market pricing of more and sooner tightening than the RBA is suggesting, some weak cash wages data from Japan, cementing the thought that nothing ever changes there, and will be buttressed by some 3Q21 GDP data from the Philippines later this morning. Here, we might see some glimmers of light from the very gradual and phased re-opening that has been taking place.

But aside from these snippets of data, market direction still seems to be taking its cues from the G-7 central banking community and its effect on equity and bond markets. And there is no shortage of commentary to digest.

An absence of direction from broadly flat US equity markets overnight leaves my Asian equity futures screen a pleasant mottled mixture of pinks and greens, though not very helpful for all that.

We haven't seen much movement from the EURUSD either overnight, which has crept marginally higher to just below 1.1590 as of writing from about 1.1560 this time yesterday - echoing the broad Asian FX gains against the USD over the last 24 hours. These, in contrast to the equity stagnation we see, seem to suggest a risk-on tone, with the lead coming from the THB, IDR ,INR, and PHP. The AUD also made gains, but so did the JPY, which actually just makes this look like broad dollar weakness, with no convincing sentiment driver.

ECB commentary overnight also looks to be trying quell any thoughts of imminent tightening, and would normally be associated with a weaker EUR. However, markets seem to have shrugged off comments from the ECB's Lagarde about the transitory nature of inflation (heard it all before, and no longer buying the story?) and Phillip Lane who posited that tightening now might be counterproductive (though for what I wonder?).

US Treasury market yields have bounced slightly following yesterday's fall, and seem more in line with comments from a gradually more and more hawkish Fed. It looks to me as if the Fed is trying to make the transition to a more credible rate guidance position without spooking markets, and so far, seems to be succeeding, though for how long is an open question. Richard Clarida, who steps down from the Fed next year, said that he sees liftoff for the Fed coming in late 2022. James Bullard has gone one further saying he is pencilling in 2 rate hikes next year. While Charles Evans, who remains in the dovish camp, admitted that he sees some evidence that inflationary pressures are building more steeply, even if he remains in the 2023 liftoff camp.

And on a day when the US Fed's semi-annual financial stability report highlights risks to US markets from the Chinese property sector, there is a story on Bloomberg noting that Goldman Sachs is looking to buy oversold assets here. A sign that the market is oversold?

All in all, this is a messy and directionless group of markets with little likely on the calendar today to provide much more clarity and direction and further central bank commentary likely to add to, rather than reduce market volatility. Good luck.

And finally, a quick plug for tomorrow's Emerging Market Trader's Association (EMTA) virtual conference which I will be moderating. This will look at risks and opportunities from China's Common Prosperity policies. And next week on the 18th, we will do a second EMTA conference switching the focus to South and South East Asia, so sign up if you haven't already.

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