

A curious turn of events

A promising start to talks between North and South Korea has done little to lift the market mood



Unexpectedly good start, but little market response

The photo shoots from Korea at the end of last week were at the extreme end of positive. Had you asked me at the beginning of the year for upside scenario shocks to the global economy, I would have struggled to add, "peace breaks out between N and S Korea" to the list. That isn't quite there yet, but the possibilities seem better than before. Is it just me though, but does the prospect of President Trump meeting Kim Jong-Un cause anyone else to get jittery? The two are due to meet within the next three to four weeks, and Trump's language, though toned down, is still on the aggressive side, threatening to walk out if he doesn't get what he wants, which is complete denuclearisation. North Korea has said it will shut down its nuclear testing site and will do so with international observers present. Though some have already suggested that the testing site is already damaged beyond repair and that North Korea is simply capitalising on that accident. Whatever the truth, things do seem to be headed in the right direction. All that is missing is some more positive response from markets. The Korean won is showing little sign of euphoria, though it isn't weakening either. 10-year Korean government bonds are a bit more responsive, with the yield down about 5 basis points to a little under 2.70%.

Fed ahead

US Treasury yields have retreated a little further from the 3% mark, but remain within spitting distance, and that hurdle may be more decisively crossed this week. Factors that should help markets to cross the line include Friday's US jobs report and Thursday's FOMC decision. The FOMC meeting is not a press briefing meeting, so rates will probably be left on hold, though the statement's tone could leave little doubt about further imminent rate rises, which could help lift yields. A bounce back in job creation is also likely, as too is a slight increase in the wages component of the report. Together, these two releases have the potential to see a 3.0% yield achieved and exceeded. Profit-taking in the extreme speculative short Treasury positioning in futures markets could see further fresh selling in the spot market to push yields higher still.

Day ahead

It has been a bad start to the day in Asia, with poor industrial production figures out of Korea for March. These come on the back of poor figures in February too and production is now 4.3% lower than the same month a year ago. There was better news from Korea's service sector, which accelerated from 1.9% year-on-year in February to 2.3% in March. And consumer goods sales were also strong. Old-style fiscal stimulus implemented last year by the current government does seem to be paying off, with weaker activity in the goods-producing sector offset by stronger domestic demand. That may be working for Korea, but we think the problems on the manufacturing side are a broadly spread Asian issue, and not every country has been as far-sighted as Korea.

Thailand releases manufacturing data later today, which will throw a first glance at how 1Q18 Thai GDP is shaping up. The Thai story has been almost the reverse of Korea's, with strong exports and output, but weak domestic demand. We would have no issues with the Thai story converging on the Korean one.

Today's main Asian release may be China's PMIs, with non-manufacturing and manufacturing indices both released. Consensus expectations are for some slight moderation in both - a combination of trade tensions and deleveraging weighing on activity in the first quarter.

There seems to be little lingering effect on the Japanese yen of last week's Bank of Japan statement ([see also our note on this from the end of last week](#)). We may have to wait for the minutes of the last meeting on 7 May for a further explanation of what, if anything the BoJ is planning to do with its quantitative and qualitative Easing Program.

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