Any excuse for a bond rally

Although yesterday's US macro data may not be much of an excuse for the latest bond market rally, the default for yields seems to be down unless there is a good reason for them to rise - and there wasn't. Meanwhile, China's Covid-19 cases bear close watching. Worrying for China, concerning for Asia. Eyes down also for RBA decision later

There wasn't much market action yesterday to get your teeth stuck into today as far as market direction for today is concerned. It was a flattish day for US equities. A flattish day for EURUSD. Not much action in the Asia-FX space either.

Yesterday's July US Manufacturing ISM index was, as one of my colleagues in the US remarked, close enough to expectations not to cause a stir. But I think these days any disappointment is cause for a bond rally. And they did, again. Yesterday 10Y US Treasury yields fell 4.5bp down to 1.177%. The ISM headline reading dropped from 60.6 to 59.5 - admittedly still a reasonable figure, but down on expectations for a rise to 61.0. New orders were also slightly down (64.9 from 66.0) but prices paid edged lower to 85.7 from 92.1. This is still ridiculously high. But maybe hints at the first signs that inflation really is going to be transitory (that's a push though). The employment index was stronger at 52.9, but it has few spillovers with the more important non-mfg employment index due later this week.

In Asia, it is also relatively quiet. We've had local Tokyo CPI inflation data already, which came in at -0.1%YoY - no excitement there. More interesting will be the Reserve Bank of Australia decision later at 12:30 SGT where there is some talk of the RBA scaling back their "taper" announcement from July.

Commentators suggest the "optics" of this are bad, given the current lockdowns. Though - the current asset purchase scheme doesn't end until September, and hopefully, the lockdowns will be long finished by then. Moreover, I think it is a push to describe the AUD4bn a week pace as a taper compared to the AUD100bn over a six-month timescale (you do the math). Rather, it was the shorter horizon of November that added scope for some flexibility in the coming months that caught my eye at the time. I think maybe adding some more flexibility to the programme might be the easiest tweak to make if the RBA feels they need to perhaps extending from November to the year-end? Nothing more seems warranted. Cosmetic really.

The other factor that might be worth some bond market rally is the evolving Covid-19 situation in China. Iris Pang has been writing on this today and says" New Covid cases in China on 1 Aug were 98. There are three sources: 1) From Nanjing airport that has now spread to Nanjing; 2) One of the Nanjing cases went to Hunan scenic parks, and now Hunan scenic parks are closed as there were cases discovered there; 3) An imported Myanmar cases that spread to Zhengzhou, the location that just experienced a big flood.

The cases are spread widely across the nation, but so far not in locations that are heavy in terms of manufacturing activity. People flows are limited as the green code system has been re-introduced, so cross-province travel is limited, and entry and exit to and from Beijing has almost ceased. Retail sales will be affected by the limited people flow cross-provinces during this summer holiday".

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