

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".

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

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>.