

Are the rate setters changing their tune?

With most rate-setters around the world, including in the Asia Pacific region, taking some cue from the US Fed, it's worth wondering why yesterday's comments from Jay Powell did not cause more of a stir in markets - positioning is may be part of the answer



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Frustrated with markets? Try yoga

What exercised me yesterday, was the contrarian price action of markets following some fairly chunky US inflation data - of which there is considerably more to come - [see JK's note on this which is still worth a read if you haven't yet done so](#). In particular, note his comments on the role housing could play. It is easy to forget the last time imputed rents played a big role in inflation, but they have done so in the past. And given the strength in the housing market currently, they look likely to do so again.

What irks me today, and perhaps I just need to learn some yoga relaxation techniques, is the lack of global market reaction to what seems to me to be a very substantial shift in Fed rhetoric, with Jerome Powell noting that US rates would not be raised in 2022 - so by implication, they could be in 2023 - a full year before the "nothing until after 2023" comment he previously issued.

He also noted that any taper of asset purchases would happen "Well before" any rate liftoff.

So what does "well before" mean? A year? If so, and backtracking from the new guidance on rates, then it is entirely possible we see a taper this year. Not only this, but the Fed now appears to be not only talking about talking about the timing of the taper, but actually talking about the timing of the taper (if you follow?). We seem to have missed a whole step here. [Here is a link to some thoughts from our rates strategists](#) written yesterday before any of these remarks, which touches presciently on some of these issues.

So why hasn't the market reacted more? One reason is that it was already there. Fed funds futures had 25bp fully priced into the December 2022 contract some time ago. So the Fed has moved in line with the market, though this doesn't rule out a further market move now. Also, there has been quite a lot of position shifting. We follow this by looking at the net long positions of non-commercial (speculative) investors in the weekly commitment of traders reports.

These show (and more are due shortly) that bets on US Treasuries have been spiking higher to their second-highest this year (good for their price, not so much for their yield) which may mean that there is limited further upside to come, potentially bringing a return to rising yields back into play. On the currency front, EUR net longs have come off extreme highs. There is still potentially further room for these to fall, but here, the signal as to the next directional shift when new positions start to be built is far less obvious.

Anyway - the upshot of all of this for Asian markets this morning is that there is no clear direction. Equity futures are mixed. Asian FX will probably attempt some further small gains today, though yesterday's outside moves by the Korean won may unwind following the likely "no change" decision by the BoK today. Other than that, it's up to you.

Asia-Pacific today

We will shortly get the **Australian** monthly employment report for March. The consensus of forecasters anticipates a 35K increase and a further small decrease in the unemployment rate to 5.7%. As ever, the scope for market surprises with this release is high.

As mentioned earlier, the Bank of **Korea** also considers its monetary policy today. We don't anticipate any action from them. They will have been watching the KRW's recent appreciation and will probably not want to do anything to magnify recent moves.

On **India**, Prakash Sakpal writes "India continues to dominate the global Covid-19 headlines as daily new cases jumped to about 200k yesterday. Lockdowns are "easy" but arguably quite an ineffective means of stamping out Covid-19 in the world's most populous country. India's massive vaccination drive appears to be faltering too. This leaves a strong political will and public awareness as the best hope. But that won't spare the economy from a rough ride ahead amid ongoing macro policy paralysis. We have downgraded our GDP growth view for FY2021 from 9.2% to 7.8%. We see the INR possibly giving back all the gains it made against the USD since early 2020, pushing to 76.80 against the USD over the next three months. We don't think March trade figures due today will alter this bearish outlook in any way, although low base effects hugely flatter the year-on-year export and import growth. [See this link to our latest India update for more.](#)"

And from Nicky Mapa, "**Indonesia** will release March trade data today with market participants expecting imports to post a second month of expansion, a sign that economic activity is showing some signs of recovery. Exports are also poised for another month of expansion, likely driven by

outbound shipments to China. The trade balance will likely stay in surplus, which should help provide some cover for the IDR, which has come under depreciation pressure over the last month with financial outflows forcing Bank Indonesia (BI) to provide some support.

Philippines: Overseas Filipino (OF) remittance data is set for release today with February data likely showing the negative impact of the mass repatriation of Filipino workers from abroad. Nearly 480,000 Filipinos previously employed overseas have been sent back to the Philippines due to the Covid-19 pandemic which has depleted the stock of OF workers and weakened remittance flows. Despite this development, we still expect remittance flows of roughly \$2.5 bn to offset the country's trade deficit, helping maintain a current account surplus which in turn would translate to near term support for PHP".

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