

Asia - don't ignore Europe

Newsflow overnight and markets were unusually driven more from Europe than the US, and this merits further watching from a usually US and USD-centric Asia.



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Woof Woof

The US and USD-centric nature of Asia was well highlighted in our morning sales/trading call today. After my usual opening salvo covering anything and everything I thought relevant for the day ahead, including all the news from the ECB, it was noteworthy that most of the subsequent speakers still referred not to the Bund yield moves overnight, but those of US Treasuries. This is a classic case of the tail wagging the dog. And this latest market movement really did originate in comments from Klaas Knot and Robert Holzmann in Europe, with a bit of added spice from a potential future German Finance Minister (pending election results of course).

Their comments, driven by rising European inflation (for example, German HICP inflation for August is now running at 3.4%YoY, the highest since July 2008), centred around tapering the ECB emergency asset purchases (PEPP) which they felt could begin imminently, and this has also given the EUR a boost against the USD, taking it back above the 1.18 level for the time being.

There is an ECB meeting on 9 September, and ECB President, Christine Lagarde, may try to throw cold water on such ideas. So the current market switch may not last. But it is worth bearing in

mind, and I would urge a little more attention paid to Europe over the coming weeks from this part of the world than is usually the case .

Much the same arguments for asset purchase reduction in Europe are of course being waged in the US. The consistent \$1tr+ deposits of cash with the Fed's overnight reverse repo facility are one symptom of an emergency policy that is well past its shelf-life. Just ask James Bullard or Raphael Bostic. Further symptoms may include house price acceleration. We are used to that as an excuse for the withdrawal of emergency policy settings here in Asia. The Bank of Korea's recent rate hike is a case in point, with household debt an added excuse. S&P Case Shiller house price growth in the US for June (quite lagging and the real-time measure could well be higher) is now 19.08%. This is not something Jerome Powell should ignore.

Asia news

One local story that caught our collective attention this morning, was the report from Chinese state media that China will hold a key political plenum in November. This plenum is not usually super-interesting, but with the seismic upheavals resulting from President Xi's "common prosperity" drive over recent months, we wonder if it won't be more interesting than usual. My initial thoughts that this could potentially be a forum for some pushback on the Xi agenda have been correctly swatted down by my colleague Iris, who notes that this would be a bit like admitting to having benefitted from the previous system - not too sensible during an anti-corruption drive. But still, it could well produce some further clarity on how the new agenda will run. So add that to your list of things to watch which you wouldn't normally.

Today we have a raft of PMI data in Asia, as well as Australian 2Q GDP, which after some fairly negative net export figures yesterday, is now expected by the consensus to come in at about 0.4%QoQ. South Korean trade data already out were close to expectations and probably won't result in much market reaction, and Japan corporate profits data is more interesting from an academic perspective than market-moving, so we'll pass on commenting on that today.

We did get some eye-watering Indian GDP yesterday though, and though the moment has passed, Prakash Sakpal has provided the following thoughts. "Indian markets will react today to the 1Q FY2021-22 GDP report which came out after the end of the trading day. 20.1% YoY GDP growth was the fastest among Asian economies but a -12.7% QoQ (seasonally adjusted) fall was the worst. Despite a much-flaunted fiscal boost to the economy, government consumption was missing in action in the last quarter. Carrying this message forward, the budget data for July showed a sharp fall in the fiscal deficit to INR 469 billion from INR 1.5 trillion in June, putting the cumulative deficit in the first four months of this fiscal at INR 3.2 trillion or 60% below the year-ago level. One positive note about the latest quarterly GDP figures, July infrastructure output growth, which is a leading indicator for industrial production, accelerated to 9.4% YoY from 8.9% YoY in June. And, today's manufacturing PMI data could be a prelude to the IP performance in August".

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