Asia-Pacific Markets reel amidst Treasury selloff

With Treasury yields an important consideration for ALL markets, not surprisingly we are seeing increased US Treasury volatility (after Powell's comments yesterday) unsettle Asian markets too. Our US economist and rates strategists think this has further to run (I agree)

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Great piece from our US colleagues

Before you do anything else today, set aside 3 minutes to read this from our US economist and rates strategists.

Though if you are really pressed for time, the message is very neatly summarised in its title "Does a “patient” Fed risk becoming a “complacent” Fed?". The answer to which is an emphatic "Yes!".

I've written about this at times in this note myself, and I find myself coming back to the question, "when headline US inflation is in excess of 3% later in 2Q21 (which I fully expect, and which James Knightley, our US economist, is forecasting), isn't Jerome Powell's "patience" going to come across as the Fed asleep at the wheel?"

We are seeing the overnight US Treasury moves translating into Treasury proxy bonds in the region, HKD obviously, but also AUD and SGD. In EM space, the moves are less marked, but Indonesian Rupiah bonds also showed some steep yield increases.

With the USD rallying strongly against the EUR and falling almost a big figure to 1.1960, Asian currencies were all softer against the USD. This was particularly pronounced by the JPY, which touched 108 briefly, but SGD and KRW were also soft. Equity futures in the region are all almost universally showing red today, following yesterday's US sell-off, which once again, was concentrated on tech stocks. I read a comment this morning that markets will only pay up for what they lack, and now they have growth, why would they pay up for tech stocks? It's a fair point and one which I have at times subscribed to, though it doesn't always hold. But as a generalization, you could widen this view to "...If the market can now obtain yield from risk-free Treasuries, why would they hold riskier credit instruments unless their yields go much higher...? You can play this game with a lot of markets now.

But whatever you do, remember, tonight it is non-farm payrolls. The earlier ADP survey this week was disappointing. it's not a good monthly predictor of non-farm payrolls changes, though having said that, it is probably the single best advance indicator we have. A softer payrolls release could see some reversal in recent market moves, though this remains close to a coin toss.

OPEC + hang on to price rather than go for volume

Something else that isn't helping to quell fears of rising inflation, is what OPEC+ is doing. Warren Patterson will be writing about this later today, so if you want to see his note, then go to the subscribe page on "Think" and set your preferences accordingly. Here is a link to that - you can do the rest yourselves.

But if you can't wait that long, then the paraphrased version of what I picked up from Warren in this morning's call was that against market expectations for about a 1.5M bbl/d easing in OPEC+ output from April, we are in fact only going to see about a 150,000 bbl/d increase, mainly from Russia and Kazakhstan. We were already looking for Brent crude prices to average $65/bbl over 2021, and I wonder if Warren will be nudging these figures a little higher now..? Let's see what his note says.

Philippine inflation, also going up

Sticking with the inflation theme, here is what Nicky Mapa is thinking about Philippine inflation "February inflation will be released today with market participants expecting CPI inflation to rise to 4.7%, due largely to accelerating food and transport prices. Bangko Sentral ng Pilipinas (BSP) Governor indicated that monetary policy was appropriate for the time being despite the current surge in prices, pointing to the need for monetary support during the economic recession. BSP also reiterated that it was confident inflation would eventually taper off in the second half of the year once food supply chain bottlenecks were addressed".

Today in China

And with the two sessions kicking off yesterday, here is what Iris Pang is looking for from today's meetings "Two things to watch for from the China government report. One is whether there will be a GDP growth target. We think probably not, as the government mainly focuses now on "high-quality" growth rather than on the amount. Another is the fiscal budget as a percentage of GDP.

The consensus is for this to be 3% down from last year's 3.6%. My focus will be on how the fiscal budget is to be distributed. There won't be much on Covid relief measures anymore. But instead, there should be more spending on technology R&D due to the ongoing technology war with the US".

Thanks a lot for reading us today, and have a great weekend.

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