

Asia poised to react to US inflation numbers

Asian markets, like others, will be on tenterhooks pending the release of important March US inflation figures later today. The main Asian release today is China trade data.



Federal Reserve

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How to position for this figure?

The consensus figure for the March US CPI release is for a very chunky 0.5%MoM gain. If that happened, it would build upon a 0.4% increase in February and a 0.3% gain in January. Three very strong monthly figures that would take 3m annualised inflation to more than 4%, and the 6m annualised inflation rate to something like 2.6%.

That's if it happens though. 0.5%MoM is a big hurdle to climb and a downside miss is possible. But [James Knightley makes a compelling case for the upside for CPI](#), following from the recent PPI figures and other high-frequency indicators of pricing pressure. And he notes that with inflation likely to be closer to 3% than 2% over the coming years, this raises the chances of a late 2022 Fed rate hike. That would actually mean that the market-implied rates from the Fed funds futures, which fully price in 0.25% Fed funds by Dec 2022, may not be as crazy as they might at first seem. And if you run the argument further, could spell further near-term upside for US Treasury yields

and the USD. We will know more in 24 hours. In the meantime, I expect Asian markets will tread water.

Global newsflow is mixed

Yesterday's market movements highlighted the fact that global newsflow is pretty mixed right now. On the Covid front, there is some positive news, with the UK opening up following its successful vaccination programme. And there is some sign that European vaccination is also now picking up pace after its poor start. But in the US, there are new spikes in infections in Michigan, which means that this state may be heading back into lockdown until that reverses. Also, the numbers out of India continue to look dreadful - Prakash mentions those a bit later on in his commentary.

It seems like Janet Yellen will not be looking to name China as a currency manipulator in the forthcoming semiannual Treasury FX report, which is good news for China though it was only ever a semantic distinction. And interesting comments from the Fed's Bullard, that a 70-80% vaccination rate might be considered a metric for tapering asset purchases. Currently, the US has administered at least one shot to 55.93 people for every 100 population, so it is well on the way to delivering that, though it's not clear if Bullard means full vaccination with 2 shots or just one. Even so, it could put a taper on track for the end of this year.

Adding to the negative side of the ledger, an attack on an Iranian nuclear facility is being blamed by Iranian spokespeople on Israel. As well as the possibility of a revenge attack unsettling markets, this probably undermines attempts to try to bring Iran back on board a nuclear agreement which could open the way for Iranian oil to come back onto the market - another potentially inflationary development if it keeps oil prices higher for longer.

Asia today

As mentioned, here is Prakash Sakpal on **India's** economy: "The recovery of the Indian economy from a record plunge last year has started to flounder as the country rides the second wave of the Covid-19 pandemic. Data released yesterday showed the steepest fall of industrial production (IP) in six months in February by -3.6% YoY. The average -2.2% YoY IP fall in Jan-Feb undermines expectations of further pick up in GDP growth in 1Q21 from +0.4% YoY in the previous quarter, although it gets some lift from the low base effects. Separately, CPI inflation rose to 5.5% YoY in March from 5.0% in February, further limiting the scope for central bank easing. The rapid second wave spread of Covid-19 together with macro policy paralysis sets this economy up for a rough ride over the rest of this year at the least, if not beyond. We are reviewing our FY2021 GDP growth forecast of 9.2% for a possible downgrade.

Singapore: Singapore's advance GDP estimate for 1Q21 will accompany the MAS's half-yearly monetary policy statement tomorrow morning (8 am local time). The consensus is centred on a much more moderate GDP fall than the -2.4% YoY rate recorded in 4Q20. We are an outlier in the consensus with our 0.2% YoY growth forecast, which we even imagine being at risk of more upside than downside surprise following strong NODX and manufacturing growth in Jan-Feb. The shift a year ago to a neutral monetary policy targeting zero S\$-NEER appreciation has served well for the export-driven recovery. We don't think the MAS is in a rush to alter this policy stance just yet, given that the sustained Covid-19 spread globally continues to threaten the export recovery ahead. And, with the S\$-NEER remaining near the mid-point of the estimated policy band, the market hasn't priced in any policy move either".

And **China** trade data for March due today is expected to show dramatic increases boosted by both base effects and Lunar New Year bounces. A 28.6%YoY gain marks the consensus median in CNY terms (a bit lower than the USD-based data due to CNY strength) and accompanies a 17.6% consensus forecast for imports.

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