

Asia sold US Treasuries hard in Feb

Treasury International Capital (TIC) flow data for February showed Asia was a big seller as Treasury yields rose...wouldn't surprise to learn that a reversal of this position is behind recent swings (amongst other things, including re-pricing of Fed).



TIC data for Feb showed Asia big sellers

I can't remember the last time I referenced US TIC data in any sort of note. Maybe this is a first. It's pretty lagging data. The latest release covers flows through February - so you have to read a lot between the lines and make some fairly heroic assumptions to gain anything from it at all. But if you can be bothered to have a look, then what you see is that during February, a period of rapid yield increase in US treasuries, Asia was a big seller of US government securities. China sold about \$15bn of them, and Japan about another \$6bn. There was modest uptake by Hong Kong, Taiwan, Korea and Singapore, but that doesn't change the net story from Asia.

Evidence of a big swing in February isn't a lot to go on, but it does set the scene for a potentially large reversal in April, assuming that not a lot happened in March when Treasury yields began to steady. A number of reports I have read this morning are attributing Japanese selling to the end of their financial year at the end of March. If so, then any resumption of rapid buying is probably not going to persist for too long. Think of this as a correction.

The other floating idea is that Jerome Powell is now getting through to investors about the Fed's rate hike intentions or lack thereof. And there is also some support for this. The implied yield on the Dec 22 Fed funds contract peaked on April 2 at 0.315%, indicating a full 25bp priced in and then some. This has pulled right back to about 0.23% now, though it looks as if it is no longer moving as much on a daily basis, so this might too be viewed more like a correction than the start of a new trend.

Whatever the story, the price action remains extremely odd given the macro backdrop, which once again was extremely positive, with consensus underestimating the [Retail sales data \(9.8%MoM\)](#), Empire Manufacturing, Initial claims (fell sharply) and Philly Fed. The only sour note in the data yesterday was a [slightly disappointing bounce in March industrial production of only 1.4% after the soft February figure \(-2.6%\)](#). James Knightly in NY puts this down to chip shortages (see links).

China data dump - strap yourselves in!

Iris Pang writes on today's data dump in China which is due at 10 am Singapore time. "China 1Q21 GDP data will be released today. Our estimate is 12%YoY, which is the lowest estimate among economists. The highest estimate is 22%. The large size of the figures is due to the negative base effects stemming from last year's first quarter (-6.8%YoY in 1Q20). A slight difference in the GDP level estimates will result in a very different %YoY, so do not be overwhelmed by the high growth data release. We expect fixed-asset investment will be dominated by technology investments rather than transportation infrastructure, but that could change over the rest of the year as transportation infrastructure is still important for China. Industrial production should be strong due to base effects as well as increases in production resulting from the chip shortage. But looking ahead, we see slower production if chip shortages continue. Retail sales will recover well because international travel was still restricted and consumers were forced to spend within China".

Singapore March Non-oil domestic Exports (NODX) will be being released as we put this note out.

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