

Bond pullback muted thanks to strong spending data

Following the strong rise in US yields this week, we were entirely expecting a pullback yesterday. In fact, we thought it could have been bigger, but strong US data seems to have helped mute the move. Australian employment rose in Jan as expected



Are these numbers "virused"?

Yesterday's slight pullback in US 10Y Treasury yields could easily have been bigger given how far it had come in such a short time. But in the end, the 3bp retrenchment to about 1.27% was really pretty insignificant.

What may have helped this from being a bigger move was a slew of very strong US data yesterday. This included a 5.3%MoM surge in retail sales (the control series was up 6.0%MoM!). Industrial production rose 0.9%MoM, though there was a slight downward revision to the previous month, nonetheless, it was still a strong outcome, and PPI also surged by 1.3%MoM at a headline level, and by 1.2% MoM for the core.

Normally, I would link to something our US economist, James Knightley would have written overnight on this. But JK is currently trying to escape the deep freeze in the US by taking some

holiday in a corner of Florida that seems to have escaped the polar vortex (it's working if his sunburn is anything to go by...).

That hasn't stopped me from pestering him for some answers via web-chat today. I asked him, "was this similar to the whacky drop in retail sales we saw in Germany earlier, where the pandemic and lockdowns were messing with seasonal sales and consequently, the seasonal adjustment that the boffins in the statistics department apply to the figures before release?" He thought this may be a small factor, but cited (as the main reason) the income dispersion of the spending, which was mainly driven by lower-income groups. To his mind, this tallied more clearly with the effect of the stimulus cheques sent out by the government as the main contributory factor. So it's real, at least much of it anyway.

The FOMC did their best to dampen the bond market too, with a dovish FMC statement, noting that it would be "some time" before the conditions to change their current accommodative stance were met. Though fail to get very excited about phrases like "some time". Is this what passes for forward-guidance these days? I can live without it.

The US calendar quiets today, with only housing starts worth a look, and not much out elsewhere in the G7.

Its not all bonds you know...

Other markets didn't quite behave as you might expect following the bond pullback, but maybe because the Treasury move was so muted, the USD still found room to rally again against the EUR yesterday, declining to about 1.2044 now.

Asian currencies also didn't do an awful lot, with the KRW and IDR as the unlikely pair that always seem to move together these days, and showing the most weakness. USDKRW now about 1108 and USDIDR gapping up to 14020. USDCNH pushed up to 6.45 but didn't go through convincingly on the day and is now back to 6.44. Today's moves may also be a bit muted.

Helped along by USD strength, and despite the fall in yields, gold continues to look soft (no pun intended), though oil futures remain bid with cold weather and power outages in the US still the main support.

Australian employment - no surprises

Australian employment data just out contained no surprises at the headline level, rising 29,100 in January from December. I confess to being nonplussed about getting the number virtually right (INGf 30K) as these numbers are notoriously erratic.

Still, if you want a bit of value-added, the strength in the full-time employment figure at 59.0K is the dominant story here, and declining part-time jobs (-29.8K) indicate a stronger income boost from these net 30,000 jobs than if the number had been split 50:50. So good news for the economy, and therefore should translate into slightly higher AUD bond yields (though they still seem to be absorbing the US Treasury move) and a slightly stronger AUD (which is happening). All of this is helped by a dip in the unemployment rate to 6.4%, given a helping hand by a small drop in the participation rate to 66.1% from 66.2%.

Bank Indonesia meeting today

Closer to home, Bank Indonesia (BI) meets today, and here's what Nicky Mapa thinks will be the result. "BI meets later today to discuss monetary policy. We expect they will keep policy settings unchanged. Expectations for a rate cut have picked up after official GDP forecasts were downgraded. But with IDR under pressure recently we believe BI Governor Warjiyo will leave rates unchanged at today's meeting. FX stability has been a significant decision point for monetary easing in the past and we expect it to guide Warjiyo's decision later today and in the near term. Governor Warjiyo will likely reiterate the central bank's accommodative stance given below-target inflation and with growth momentum stalling due to the pandemic".

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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