

## Bond yields: Not so flat now

What do yield curve pessimists talk about now that the 2s10s slope has steepened?



Source: Bloomberg

### Does a higher bond yield signal better, or worse times ahead...better surely?

US 10Y Treasuries have risen - really sharply, from the low 3's recorded earlier this week, and are now at about 3.18%, after the largest single-day upswing since November 2016, according to Bloomberg.

To be honest, the US data was pretty good! The private ADP survey of employment was very strong at 230K, and in my personal opinion, is better jobs data than Friday's official labour market report. The non-Manufacturing ISM index, at 61.6, reached its highest apparently (same source) since August 1997, with a massive leap in the employment index. To put it in perspective, this was just 3 months into the UK's Blair government - I had just started work in the private sector after 4 years with the UK government. My hair still had colour and I was about 30kg lighter (but was I happy?). This ISM release is a relatively small survey, and spikes this high don't usually last. Indeed, they often seem to mark a peak for the economy, with sometimes rapid deceleration within a year or so.

But I can't deny the data were good, very good. And if this is reflected in Friday's labour report (especially on wages - the market is bored of jobs gains), albeit, with a healthy dose of adjustment for the impact of the recent Hurricane's ([see also James Knightley's report on this](#)), yields at this level could stick around or conceivably go higher. We are already within 2bp of our house-call for end of year yields at 3.20%, and not far from our 1Q19 peak call of 3.30%. Maybe there is a little upside to even these numbers. Our new October forecasts will be released shortly.

## Fed speakers don't give yields cause for a turnaround

Although a handful of Fed speakers in a single day is enough to have you thinking of the towers of Babel, the overall message of cautious tightening continuing seems loud and clear. There was one slightly worrying note from Chairman Jerome Powell, which, with reference to the neutral rate of interest, said that although the Fed may go past neutral in hiking, "we're a long way" from that. If this was meant as a comforting comment, it only suggests that rates have a lot further to rise. I don't think this is what he meant to imply.

## Cause for happiness, or concern?

So with US yields rising on a tide of good news, should we be happy or worried? Well, that depends where you live. Here in Asia, the US story is a double-edged sword. Normally, one side of that sword would be the implied gains in Asian exports to the US and the rest of the G-7 based on soaring domestic demand there. But that edge has been thoroughly blunted by US trade policies. The other side, higher global interest rates, and a stronger USD are certainly not helpful. Today, Asian FX appears to be struggling to hold a line, with even robust units like the SGD and THB feeling the pressure, and of course, the more fragile IDR, INR and PHP are under greater pressure.

## Eyes on the RBI

With the calendar in Asia still pretty bare today, most of the conversation is looking towards tomorrow's RBI rate policy meeting, which Prakash Sakpal has written about in a [new note](#).

While a 25bp hike is looking almost a given (if they don't the INR will get crushed), there are concerns over liquidity within the financial system, and additional measures may also be needed to provide the INR with support even with a 25bp rate hike. Prakash has moved up his end of year USDINR forecast to 75.0 as we are already knocking on the door of his earlier 73.5 forecast.

Could a 50bp hike be envisaged? Basically, we wouldn't rule it out, though it would be out of character for the RBI, with another 25bp hike in December our base case. Even then, without additional supporting measures, we would imagine INR support from this unexpected move might prove short-lived.

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