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Bond yields plunge

It hasn't taken a lot to send US 10Y bond yields to their lowest since November 2017. There isn't much resistance now if this breaks until about 2.04%-2.07% .

Source: Shutterstock

Little things...big results

Yesterday was not a cataclysmic day for US data. The FOMC minutes were neutral and largely absorbed by markets without murmur. The manufacturing (and service sector) PMI data were down by 2 big figures. This was unexpected, but most analysts still focus on the old ISM indices rather than these new-fangled PMIs, so movements like this can usually be ignored. New home sales were weak. -6.9%Mom isn't good, but they rose 8.1% (revised up) the previous month, so actual home sales were within a whisker of where they were expected to be. In short, we can't blame Macro for this.

Stocks, on the other hand, look quite bad, so this is more likely a portfolio rebalancing story in the main. All main US indices were down more than 1%. The Tech indices fared worse. Europe largely did worse too. Asia will likely follow suit this morning by plunging into the red. India may briefly buck the trend on that following news of PM Modi's conclusive election victory. But that probably won't last.

Despite some more positive words on a possible trade deal from President Trump, most of the newswire headlines on the equity pages point the finger at trade war tensions for the latest drop. If correct, then a meaningful recovery might well require even more comforting sounds on a China deal, or Chinese tech, which is a related, and equally important factor.

The US Treasury yield dip, and possibly President Trump's more optimistic trade comments have weighed on the USD, with EURUSD ticking up to 1.1183 as of writing. But the USD appreciation trend from January looks still firmly entrenched. Though we might need to see the tone on trade worsen again for 1.11 to be breached on the downside.

India - where next?

Prakash Sakpal has written on the election victory separately, so all I would add is a question. Where do we go now? Most of the election was fought, less on policies, but on personalities. That may win votes, but it doesn't encourage investment. So what is going to happen in India over the next five years? The last five offered only some clues with the big and clunky policies of GST and Demonetisation together with a fairly clear knock to the independence of the Reserve Bank of India.

Goals for this term might well include tackling bad loans and recapitalization of the state-owned banks, reducing the budget deficit, and tackling the current account deficit - not by the current import substitution measures, but by productivity-enhancing structural reforms, and reduction in bureaucracy. These are harder steps to take, don't always deliver quick results, and often make things worse in the short term - awkward when unemployment is already high. Given this, and the looming presence of the political calendar, such measures are only likely to be implemented forcefully if they are implemented soon. The next few months will be important for India watchers.

CNY stable, again

The CNY fixed yesterday below 6.90 again, keeping it virtually flat at this level, and comments from the Central Bank Deputy Governor, Liu Guoqiang suggested that stability was the way forward. That contrasts with Dallas Fed President, Robert Kaplan, who warned that China may use currency depreciation to support economic growth in the face of trade tariffs.

Our take? If the latest tariff measures do weigh heavily on the economy and are not offset by other countervailing policy measures, then you can't rule out some currency depreciation form China, but its clearly not their preferred option, and they have plenty of other tools at their disposal before they have to resort to that.

Asia Day ahead

About the only release on the Asian calendar today worth a look will be Singapore's April production data. Consensus looks for this to register a slightly less negative year on year figure of -3.7% from -4.8%YoY in March.

This looks to us to be more like a "statistical payback" forecast than a statement about production troughing. In other words, last month was bad, so this month will be a bit better. There isn't much more to it than that. Looking at the data in terms of levels, which can be a lot more instructive, the February, March, April deviations in production are always violent thanks to the Lunar New Year. Last month's year-on-year comparison, as a result, does not contain a lot of genuine signal amidst the substantial noise. Comparing this month's data to that figure is not a whole lot more instructive. Unless there is a substantial deviation from the consensus view, we can probably let this one pass unremarked.

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