

Can we start again please?

It wasn't supposed to be like this, 2021 was supposed to be the beginning of the return to normalcy...



New year's greetings

A belated Happy New Year to all of our readers and apologies for the delayed start, due mainly to a bit of Covid on my part, and some enforced isolation. Almost better now though, and I should be home tomorrow. Fortunately, my r-number turned out to be zero, which is both gratifying and confusing, as I was supposed to have the new more infectious UK variant following my brief trip home before Christmas.

Sticking with the Covid theme, and while this remains a largely US and European story, there are more reasons for nerves closer to home. The daily numbers in Japan are shooting up and are about 8000 now, and seem to be accelerating rapidly. Talk of states of emergency are likely to be followed by implementation, though the Japanese legislation on this sort of stuff is weak, and it remains largely guidelines rather than mandatory enforceable restrictions, though Japan's population is pretty well-behaved, so adherence is likely to be high. The daily numbers for South Korea seem to be moderating a bit. But there is a growing number of cases around Beijing, and movement restrictions are being re-imposed, which highlights an important point - the hurdle for restrictions in the Asia-Pacific region is very much looser than it is elsewhere. We will only need to see tens of cases in some populations for restrictions to be re-imposed or tightened. That becomes a more important consideration just before the Chinese New Year and likely large-scale movement of populations in China and elsewhere.

Cause for concern

Our latest monthly was published at the end of last week "[Hardly a Happy New Year](#)", though if you look closely, you can find some nuggets of optimism, including on the UK where a last-minute Brexit deal (of sorts) was finally achieved.

But recent market action is a little worrying. The weak payrolls figures last week ([see also this from James Knightley](#)) point to weakness ahead, but US Treasury yields pushed higher. As I wrote at the end of last year, the relationship between US Treasury yields and the USD was changing (becoming positive) as yields headed towards 1.0%. They are well through that level now. Where previously, bad news would weigh on yields and lift the USD, now, rising yields were strong enough to lift the USD too. This bears close watching as our house view on USD weakness has been reinforced in the last forecast update, so further price action like this would undermine this latest outlook.

Indeed, a stronger USD and rising bond yields would be a fairly toxic combination, not least for Asia's weaker economies. That might be exacerbated if markets began to worry more about US inflation. We get some December CPI data from the US later this week. This is still likely to show inflation at only 1.3%YoY. But we do see US inflation rising over the coming year, mainly as a temporary price re-setting exercise after the pandemic. Temporary or not, markets may well over-react, so this is worth thinking about, in terms of potentially seeking protection, even if you don't actually believe the inflation story (I don't).

As far as data in the region this week goes, it is reasonably quiet, though the BoK meets at the end of the week. We don't expect anything from them, and neither does anybody else.

OK, I think I'll leave it there for today, especially as my breakfast has been delivered outside my cell - some buttered bread today (good job I saved half of last night's dinner just in case...).

Best wishes for the New Year...this could be far harder than we thought...

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