

False start for markets

Bond markets may have been trying to anticipate taper announcements yesterday, but slightly softer than expected US GDP data will lead to a restart.



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Global market backdrop

The US managed some minor stocks gains yesterday. US stocks opened up sharply but traded almost immediately down before recovering later in the session. The S&P finished up 0.68% and the Nasdaq up 0.22%. Equity futures in Asia are mainly in the red this morning and don't seem to be buying into the positive story.

There was a similar, though inverted trading pattern in bond markets, where 10-Year US Treasury bonds sold off early, with yields rising as high as 1.686%, before retreating back to 1.6343% for only a net 2.5bp increase. The increase would in my opinion, probably have been higher if US GDP had met expectations - [though note JK's explanation for this](#) - depleted inventories and a drag from net trade - we will see the inventory portion at least of this rebuilt in the coming quarters, so that has merely postponed some growth until next quarter or the one after.

Looking back on the day's trading, it almost feels as if markets were looking for an excuse to sell Treasuries ahead of any future Fed taper announcement, which they are increasingly looking towards. Yesterday was not that day, but there will be other opportunities and the direction for yields still looks skewed heavily to the upside.

Despite the small gains in US yields at the back end of the curve, the front end saw some small declines, and that probably helped the EUR, which rose to 1.2124 against the USD.

The Asian FX complex was stronger overall against the USD - led by THB, and INR, followed by IDR, KRW and PHP.

Data due and already out

April Tokyo CPI is out already and shows a steep decline of 0.6% YoY, down from -0.2%YoY in March. National CPI figures released later will track these falls. The Jobless rate for March declined to 2.6% from 2.9% and the jobs to applicants ratio rose 0.01points to 1.10 so despite the weak inflation data, there doesn't seem to be much wrong with Japan's labour market.

Comments this morning from former Bank of Japan (BoJ) officials suggest no change to the BoJ's policy framework until after Governor Kuroda leaves office in 2023, and then perhaps not immediately. That boils down to nothing but minor tinkering with the negative rate and Quantitative Easing framework. We are used to that.

In the rest of the G-7, US PCE deflators for March should follow the earlier CPI release, and rise 0.5%MoM and 2.3%YoY with some possible upside. The US finishes the week with University of Michigan consumer confidence figures which are likely to be supportive.

EU 1Q21 GDP preliminary release today is expected to fall -0.8%QoQ - quite a contrast to the US figures.

In the rest of Asia, Korean production figures are also out already - showing a slightly stronger YoY increase than expected at 4.7% for March, though the MoM increase was weaker at -0.8%, which suggests either some messed up forecasting, some historical revisions, or volatile seasonal adjustment - maybe all three.

Still to come is official China PMI data at 9 am SGT. We anticipate this softening a bit on semiconductor shortages and a pre-Labour Day holiday lull. Thailand trade data is also due - it probably will not be market moving.

And Nicky Mapa writing about Indonesia notes: "Finance Minister Indrawati announced 2022 fiscal forecasts with the deficit to GDP ratio expected to range between 4.51 to 4.85% after a projected 5.7% this year. This projection is relatively elevated considering earlier pronouncements to return the deficit to GDP ratio to 3% by 2023. Indrawati indicated that state spending would continue into next year in a bid to support the economic recovery with authorities pushing revenue collection reform to offset increased expenditures. Indonesia expects GDP growth to accelerate to 5.4 to 6.0% next year after expanding by 4.5 to 5.3% in 2021".

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