Happy CNY Eve

Gong xi fa cai to all our readers and as well as wishing you greater wealth in 2021, we also wish you excellent health - even more important these days

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2021

Last day of the year of the rat - come on Ox!

Today will likely mark a quiet end to the year of the rat, a year many of us would like to forget. Though despite the lockdowns, job losses, health issues, and family losses for many, this has also been a remarkable year in terms of markets, and one that for many leaves a sense of unreality that we can have seen such a massive hit to real economies, but has left financial markets broadly intact, if not looking rather inflated.

Central banks are doing their bit to ensure that this "bubble" (if that is what it is) doesn't burst too soon, and most will be hoping that it never bursts at all. For their part, the US Federal Reserve seems to be just wishing the problem away, with comments from Fed's Powell yesterday repeating that the Fed "...will not even think about withdrawing policy support" on either rates or asset purchases for the "foreseeable future". I don't know about you, but I'd prefer my central bank to always be thinking about such things, just making clear the circumstances under which it might alter its policies.

Not thinking about it, not making this clear simply leads markets to speculate. What rate of unemployment will lead the Fed to start thinking about it, again? And is it just a short step from thinking about things to actual action? Or does this require a lengthy adjustment? Without clarity on this, I suspect the alternative gives way to more market volatility than I think anyone would want, or potentially to misallocations of resources that can in time lead to financial market bubbles and bursts.

I'm trying to think of a witty comment along the lines of "let's hope the year of the rat doesn't turn into the year of the....?" but literary creativity is lacking this morning. Send in your suggestions. Maybe we can do a Twitter poll? Editorial?

At least part of Powell's dovishness seems aimed at keeping his job, one he professes "to love" (Grrrr, lucky man). He has also been lucky with the inflation data until now. And James Knightley has written about this overnight in the linked piece here. A bit of helpful rounding seems to have worked in Powell's favour with the headline inflation rate at 1.4%YoY not the 1.5% expected. But as Knightley also points out, this is a temporary reprieve. If you're short of time, skim down to the bottom part of JK's note, where he considers the need for the Fed to keep buying so many assets. For the record, James has the US growing 5.2% in 2021 and inflation pushing above 3% in 2Q21. All our forecast numbers can be found on Think by following this link or tapping on the helpful tab at the top of our home page.

This dovishness and helpful inflation data overnight has brought US Treasury yields a little lower overnight, though this doesn't seem to be doing too much to FX markets, with the EUR just a bit stronger against the USD at abut 1.2120 as of writing. In Asian markets, things are obviously quite quiet ahead of the CNY holidays, though the KRW has rounded out the year on spell of strength. A week ago, it was pushing in the direction of 1130 intraday. As of today, it has powered right back to 1106.65, despite yesterday's awful labour market report. Perhaps expectations of more stimulus are drawing in capital flows?

ASEAN news today

Our sister publication, ASEAN Bytes, takes a quick look at Singapore's new Green Initiative, which can probably be filed under "Better late than never". We await more details in next week's budget, but we would note that Singapore is still lagging behind regional peers in terms of its commitments, and today, again stopped short of committing a date for zero carbon.

We also have commentary on Malaysia's 4Q GDP release and BSP's policy decision in the Philippines.

A long weekend now beckons. We'll be back next week and "looking forward" to covering the macro and market news in Asia and global events that affect our region.

From all of our team in Singapore, Hong Kong, and Manila, let us wish you (a little in advance) a Happy Chinese New Year!

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