

Heads or tails?

Monday markets down, Tuesday up, Wednesday down, Thursday....?



Coin toss

Markets circular dance as normalisation reality sinks in

At times in every business cycle, there is a significant negative relationship between stock prices and bond prices. Not surprisingly. One asset class, equities, is a risk-asset, that does well when sentiment is strong, and the other, bonds, is a safe haven play. But also, the valuation of equities depends in part on what the risk-free alternative rate (bond yield) is. So when yields rise, stock valuations dip (it is a net present value thing).

Right now, we have a tangled dance going on between a bond market that is rising because economic fundamentals are strong, inflation is, if not exactly rising, showing a tendency to rise slightly in the future, and central banks are either tightening, thinking about tightening, or thinking about not easing further.

This has met market pricing and positioning that was not priced for the beginning of the end of easy money, and as a result, we have experienced some interesting market fallout. On one day, when strong economic fundamentals would once have simply pushed equities higher, the underlying earnings story is now tempered by rising expectations of higher inflation, policy rates, and bond yields. With market valuations already looking stretched by some metrics, this has led to a sharp downward correction in stocks.

As stocks have fallen and hit market confidence, bonds have rallied and their yields have fallen.

The equity market has gained hope as valuations improve. And so the cycle continues...

This might go on for a while yet. Are we close to the bottom? Honestly, this is anyone's guess, though my sense is that no one is really panicking yet, so perhaps. But if it isn't the bottom, it has been a pretty insignificant market correction. Increased volatility will enable those who missed much of the run-up in stocks to buy on dips, and at least get invested, though I suspect they would have been happier coming in after a 10-15% correction. Still, there is plenty of mileage left in this normalization story yet, so don't rule out further sharp falls.

Asian FX - mixed bag

Unhelpfully, the Asian FX story is not really following a strict risk-on / risk-off story. Two of the currencies that tend to get hit hard in any period of market uncertainty, the PHP and IDR are looking very different, with the IDR losing all the ground (and more) that it made in January. But the PHP is making gains against the USD as thoughts of BSP tightening grow (if not today then we expect a hike by quarter end and two more to follow over the course of 2018). Elsewhere, there are some signs of stability in some currencies, though the KRW still seems to be finding it hard to find a solid base in contrast to one of our other preferred currencies for 2018, the MYR, which has been far steadier. On the other side of the coin, the THB, which we view as one of the regions more overvalued currencies, continues to look solid. Whilst this volatility continues, we have no strong convictions as to the likely direction of these currencies and will wait for some further clarity.

What's on today?

In Asia, today's top story is undoubtedly the Philippine Central Bank (BSP) rate decision. The market consensus is for no hike today - a view with which we concur. Though the central bank governor has been sounding a little hawkish recently, and a hike cannot be ruled out. If no hike today, then a March hike seems probable, as the recent inflation rise has not yet run its course, and the arguments for a hike will seem even more compelling by then.

Elsewhere, China trade data is due. This has a bit less market prominence than it once had, given the greater emphasis on consumer-driven growth, but still has the power to surprise, especially in proximity to the data-distorting Chinese New Year.

In the G-7, Japan releases a raft of highly volatile and therefore not very informative data on trade, portfolio flows bank lending and bankruptcies. We would be surprised if any of these gave rise to significant market reactions.

The Bank of England also meets today and is widely expected to leave rates alone, though there remains a lingering threat of more to come from Governor Mark Carney, and the tone of the outcome could err on the hawkish side. There is little significant data to note in the US, though an overnight Senate budget agreement may help avert a government shutdown likely otherwise on Friday. The plan suspends the debt ceiling until March 2019, and provides more funding for the military (\$80bn) this fiscal year and (\$85bn) next. An interim spending bill will need to be passed in the meantime to keep the government afloat until the longer term budget measures are passed. The fight now passes to the House of Representatives, where it will meet opposition, but may still pass.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com