

Important week for Asian markets

Together with Japan's Tankan and important production and trade data elsewhere, US employment data could provide some more volatility towards the end of the week



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Bond yields heading higher again

We start the week with 10Y US Treasury yields back above 1.5%, which we haven't seen since the beginning of June. The driver for this may be some more positive news coming out of US Congress on the possibility of an infrastructure spending plan, where there appears to be the kernel of a deal.

This is much smaller than the spending figures talked about earlier this year. Bloomberg is mentioning a \$579bn spending plan, which is well down on the \$2tr figures being bandied about before. This plan omits the corporate taxation and social spending plans the original version put forward by President Biden. So it's not the full package, which is one reason it is much smaller.

If this package does get through, then it could provide some boost to real bond yields, which have been depressed since March. Though it's worth noting that this is not the reason that Treasury yields are higher today. That owes more to a pick up in inflation expectations - for which I can see no obvious catalyst other than the usual slow lagged adaptive response of expectations to actual inflation.

The other thing that could see real yields moving this week is the US labour report on Friday. Consensus is paring its expectations down from million-plus figures last month to 700K now. Our house forecast is even more subdued at 550K - much the same as last month. If we are closer to the mark than the consensus, then the recent spell of 10Y yields back above 1.5% could prove short-lived. But then again, this is payrolls, where anything could happen, so you can't rule out some upside surprise too.

Any spike higher or lower in 10Y US Treasury yields will provide some volatility in Asian markets. The link between rising US yields and the USD FX rates is currently a weak one. But that said, exogenously rising yields will tend to stifle risk asset markets and that is likely to put Asian FX under a depreciating trend, and vice versa if yields dip. This is one of those occasions where good news is bad news for markets. That would tend to hit the weaker economies in the region hardest (THB, MYR), though as the region's proxy currency, the KRW would likely lead any move (higher or lower).

Asia - news flow picks up towards the end of the week

It is a slow start to the week in Asia, but always with Friday's payrolls in mind, the news flow in Asia will pick up as we head towards next weekend and that could also reflect gradually increasing market volatility as we head towards Friday.

We already start the week with some data from China over the weekend on industrial Profits. Iris Pang in Hong Kong writes "China industrial profits grew 36.4%YoY in May from 57.0%YoY a month ago due to high base effects and increases in the costs of production. Telecommunication profits dwindled, weighed on by reduced production from the ongoing chip shortage. This is the biggest item within industrial production and obviously has become a headwind for China's manufacturing sector".

High spots in terms of the data flow elsewhere in Asia this week will include Japan's latest quarterly Tankan survey, which is widely expected to show the headline large manufacturing index recovering sharply. We also have Korean industrial production figures to look at, and a wide range of Markit PMI data for the region, which always comes out in the week before payrolls, which usually limits its market impact.

In SE Asia, we have Malaysian trade data and Thai manufacturing data for May today. Prakash Sakpal writes "Both releases should post hefty year-on-year surges resulting from the crash in activity a year ago. But the raging third wave of Covid-19 in both countries and tighter restrictions have been depressing the economic activity more recently. We believe markets will ignore these indicators and instead focus on the evolving Covid-19 situation. Over the weekend, Thailand announced a tightening of restrictions in Bangkok and nearby provinces. And, Malaysia announced another extension to the nationwide lockdown (MCO 3.0), which has been in force since early May (the latest extension was due to end today). This means the economic suffering of these countries has further to run this year, leaving the Malaysian ringgit and the Thai baht in the lower half of the Asian FX pack in terms of their year to date performance."

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