

It ain't over

So now equities shrug off the highest bond yields in more than four years...what next?

House of cards



This seems to good to be true...

Having just gone through the roller coaster of equity sell-off induced by bond yield rises, I am frankly at a loss to explain what is now happening now. On the back of highly surprising US CPI upside shock yesterday, bond yields have done what they should do - gone up, and gone up a lot, at both ends of the yield-curve. If this had happened last week, you would have expected the Dow Jones index to have tumbled 1000 points. Instead, it is up 253 points.

So do investors now see rising prices as good for corporate margins and earnings? Given the other news yesterday, of a 0.3% decline in retail sales, this seems highly doubtful. What is more, with the January reading benefitting from some helpful base effects, even higher headline inflation seems only a month away.

What's more, as stock prices fell, the analysts who first predicted the correction came out to say that they were no longer overstretched. Now stocks are heading back to their starting levels, and bond yields are even higher. I can only assume that we are in a temporary lull before the turmoil returns. It was notable that trading volumes yesterday were well down on previous days, perhaps as the Chinese New Year approaches, and as we approach the President's Day holiday in the US on Monday. After that, things could get interesting.

Weak start to today's Asia data...but getting better

The Asian news flow for today has got off to a weak start with a big drop in Japanese core Machinery orders (-11.9%MoM), leaving this indicator of business capex down 5.0% from a year ago. This is all the more surprising as Japanese corporate profits are surging, especially in the manufacturing sector, and so you would expect capital expenditure to be rising. Then again, Japan does tend to back-load its capex to the end of the year, and so we may simply have to wait for this to pick up as the year progresses.

Australian January employment was also a slight disappointment, with all of the net job creation (+16,000) coming from part-time employment. But Singapore's NODX has provided a crumb of comfort, bouncing back from December's very weak 3.1% reading to deliver a 13.0%YoY gain in January.

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