

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.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10

Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.