

Opinion | 24 March 2021

AUSTRALIA JAPAN

Kiwis hold onto their bonds

The market narrative seems to change on a daily basis, but in the APAC space, besides watching US stocks and bond gyrations as usual, a failed QE operation in New Zealand provides food for thought, with the NZD and NZ bond yields falling sharply.



New Zealand Prime Minister Jacinda Ardern in Wellington, capital of New Zealand

Source: Shutterstock

Its not all about the US you know

Stocks markets have flipped around again today, with the NASDAQ and S&P500 showing big falls (-1.12% and -0.76%) - though one thing the financial newswires seem to have forgotten to point out, is that on a two-day basis, stocks are actually still up, and recent moves have not morphed into any sort of trend yet - just lots of volatility. What does appear to have changed, however, is the narrative. Where bonds have been previously driving stocks, the latest move seems to be much more a case of stocks driving bonds. 10Y UST yields dropped 7.4bp to 1.621%.

But these moves were dwarfed by moves in APAC bond markets, in particular in New Zealand. Here, a failed QE operation yesterday saw 10Y NZ bonds down 13.9bp and the NZDUSD fall from about 0.7170 this time yesterday to about 0.6869 now. The AUDUSD was dragged down

in sympathy with it. New plans to curb property markets by PM Ardern may have also been a contributing factor, but maybe investors are becoming more reluctant to part with bonds at these yields?

In the US, both Powell and Yellen maintained the "inflation isn't a problem" mantra in appearances yesterday, which could have helped the fall in yields - though Yellen nearly spoiled it by saying the economy could hit full employment by 2022. The Fed's Kaplan also 'fessed up to having voted for a rate hike in 2022 (dot diagram), and sees 10Y UST yields at 1.75% - 2.0% by year-end (in line with INGf, at least on the bond yield part).

In other news overnight, the Bank of Canada has given some strong hints about moving to a taper as soon as April - perhaps this will spur thoughts for the US? Not by April, but possibly sooner than anyone is currently thinking (not that anyone is being encouraged to put a date on this by Fed Chair Powell, who claims he is not even "thinking about" this yet).

US new homes sales were soft yesterday - like existing home sales we mentioned a day ago. This is probably a weather effect (remember the big freeze?) but it bears watching in case it turns out to be more than that (a higher yield effect for instance). [James Knightley has written about this in more detail in this linked note.](#)

The IMF will likely expand its SDR programme by \$650bn after Yellen gave consent to this. The Trump administration was against this. The aim of this expanded SDR allocation would be to help poorer countries affected by the Covid-19 pandemic. Talking of the pandemic, Pfizer is developing a pill to stop the virus from replicating, amidst concern that vaccines may be only part of the answer to dealing with Covid-19.

Datawise, PMIs out in Europe today and already out in Australia - showing strong gains in the service sector (56.2 from 53.4) and continued strength in Mfg (57.0 from 56.9). Japan has released PMIs too. Some pick up in the Mfg PMI (52.0 up from 51.4) but little change in the Services PMI (46.5 from 46.3).

In ASEAN, we have a Bank of Thailand meeting today and Malaysian CPI (February) - both covered in more detail in our sister publication - [ASEAN Bytes.](#)

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