

Market relief proves short-lived

That didn't take long! One day and markets are already selling tech stocks again, the dollar is rallying against the EUR, 10Y UST yields push above 1.70%, gold and bitcoin are both selling off. In Asia, KRW is the big outperformer as Governor Lee hints at possible intervention, and BoJ will announce their policy review today - a wider JGB yield range expected



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This could run and run

If the UST bears had planned it, it couldn't have gone much better. The Fed has been, said some words, and then gone again. Besides the usual speaker schedule, there isn't too much to get in the markets' way now. There doesn't appear to be any catalyst to these latest moves, which have taken 10Y US treasury yields (UST10s) to over 1.70%. Investors may simply have been waiting for the FOMC to get out of the way before resuming the Treasury sell-off. Nasdaq has led the equity sell-off, falling more than 3%, The S&P was down about 1.5%.

This is spilling into wider markets too - Gold is selling off, as is oil, and the other risk sentiment barometer, bitcoin, is also lower. This appears to all stem from the longer end of the US yield curve, although the UST2Y was also up about 2bp to 0.15% - there is no obvious shift to Fed funds futures with the Jan 2023 contract still the point at which 25bp Fed funds rates are fully priced in.

In APAC, it is the \$-bloc bonds in Australia and New Zealand that are bearing the brunt of yield

increases, but this isn't leading to more attractive currencies, which are selling more on the weaker commodity story than paying attention to bond yields.

So long as we see pull-backs along the way and this remains orderly (it still is), then there is little reason to expect the major central banks to stand in its way. Though that could change if things start to deteriorate. Our house 3Q21 2.0% 10YUST yield forecast is looking in some danger of being reached a quarter early. Most forecasters would be happy with that.

BoK hints at intervention

While the Fed and ECB may not be inclined to step into markets while they remain orderly, that's not so clear in Asia. Bank of Korea (BoK) Governor Lee, has hinted that he might sanction some intervention if markets become unstable, and that may be one reason for the KRW's outperformance over the last 24 hours, with USDKRW dropping to 1123, within spitting distance of our end-of-quarter 1120 forecast (which had looked rather optimistic until today).

Another APAC central bank, this time the Bank of Japan (BoJ), is also potentially going to fiddle with its monetary policy stances. The BoJ will announce the decision of their review into BoJ policy today. The consensus expectation, following a number of hints, is that 10-year Japanese Government Bond (10Y JGB) yields will be free to fluctuate in a wider band than had appeared to be their current tolerance zone. Also, there may be less clarity on the bond purchase schedule to allow the BoJ to buy fewer bonds should market conditions seem supportive for them to get away with that. All told, it seems like they are leaning towards more tolerance for a steeper yield curve.

Alaska summit or Alaska brawl?

Finishing up with bio-geo-politics (not a real word I don't think but should be), France is imposing a 1-month lockdown in the Paris region (though seemingly excluding schools and essential businesses) as they grapple with a surge in cases as the UK variant becomes the dominant virus throughout Europe (who said Brexit would damage UK exports?). Italy is already back in lockdown.

And the Alaska "summit" yesterday between China and the US has gone down exactly as badly as Iris Pang suggested in her remarks in yesterday's note. Bickering and sniping are two words that just about sum up this summit. School playground behaviour from the world's two biggest and most powerful economies. Doesn't make you want to rush out and go limit-long risk assets now does it?

And on that depressing note, we head into the weekend. Have a very pleasant safe and relaxing one. Let's do this all again on Monday.

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