

Markets don't just ignore macro any more, they do the opposite

Yesterday's US CPI data and subsequent market reaction suggest that macro might not just be irrelevant for markets any more, it may be a contrarian indicator for them



Confusion

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March US CPI higher than expected

Yesterday's [US March CPI data are covered in detail in James Knightley's \(JK\) note here](#), which also rams home the point that there is more of this to come. Please read his note for the details.

The point I wish to make is this. The CPI figures came in above consensus (0.5%MoM, and 2.5%YoY was expected). The March figures rose 0.6%MoM and 2.6%YoY. This was not just a result of some rounding up from a marginally higher month-on-month figure. That increase of 0.6% MoM was forecast by some, but this was a solidly stronger figure than the consensus had been forecasting. Real yields on US Treasuries were negative prior to this release based on whichever one of the many inflation expectations measures you wish to use. They are now negative based on actual inflation data. They will become more negative still in the months to come. And they will likely remain negative even after the spike in inflation which will peak with the May CPI figures released in June.

So how do bond markets respond to this by rallying hard, knocking more than 5bp of the 10Y yield

(now 1.615%), and in the process, weaken the USD which rose back to EURUSD1.1950? And how does this translate into a strong 30Y US Treasury auction?

One can reach for glib explanations like "buy on the rumour, sell on the fact" (reversed of course for Treasuries but works for the stock market), but that doesn't help you figure out what will happen as and when JK is right, and US inflation rises even further. Honestly, at this point, not only are you not better off trading by ignoring the macro story, you would do better with perfect economic foresight, to trade the exact opposite of its predictions.

Probably underlying all this is a swing in market positioning and in time, I still have some faith that macro trends affect markets the way they are supposed to, with inflation resulting in higher bond yields. It is also just possible that the Johnson and Johnson vaccine setback announced yesterday may have been a factor, with daily case numbers in some US states still rising despite the good vaccine progress being made. But at this stage, I have no good answers for you.

Singapore GDP stronger than expected - MAS on hold

Prakash Sakpal is writing up the Singapore 1Q21 GDP data out just now, which showed an increase of 0.2%YoY, returning to year-on-year growth for the first time since the Covid-19 pandemic struck. The 0.2% increase was better than the consensus had been expected (Consensus -0.5% ING f +0.2%YoY). Monetary Authority of Singapore (MAS) growth forecasts for 2021 remained unchanged at 4-6%, and they continue to expect inflation to run lower than the historical average.

As expected, the MAS left their neutral Singapore dollar NEER (nominal effective exchange rate) target in a neutral setting, which will continue to provide export support at least until the October meeting, depending on how the external Covid-19 picture shapes up. Watch out for Prakash's note later.

Also out in Asia

We've also had some Korean and Japanese data this morning. The Korean data were relatively uneventful. A fall in the March unemployment rate to 3.9% from 4.0% was entirely expected, and much less volatile than some of the figures we have seen recently. February import and export price data had no consensus figures, but with import prices rising 3.4% on the month and export prices rising almost the same (+3.3%), there is no implied shift in Korea's terms of trade, which therefore requires no market adjustment in the KRW.

And rounding off this morning's data releases, core Japanese machine orders for February fell by a disappointingly large 8.5%MoM, which comes on top of a 4.5%MoM decline in January, and sets business investment off to a very poor start in 1Q21 unless the March data stage a massive rebound.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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