

Momentum waning in US Treasuries, Korean output

The recent Treasury sell-off has taken a breather; Korean production momentum also appears to be losing some momentum



Treasuries

Source: shutterstock

Who's in the driving seat?

In recent days, it has been the rise in bond yields that has driven market moves from equities to FX, but overnight, it looks as if the equity market has stolen back control, with big increases in the S&P500 and NASDAQ taking them to within spitting distance of their recent all-time highs. This still helped deliver a small increase in 10Y US Treasury yields, which nudged up just over one basis point to 1.417% as of writing. So it looks as if equities are now driving other markets, not the other way around. So what next?

Well, while it may be tempting to conclude that the equity market is getting used to higher yields, this also means that this takes away one of the hurdles for yields to keep moving higher. What would undermine an uptrend in bond yields, would be a big collapse in risk appetite, brought on by too precipitate an increase in the first place. This new two steps forward, one-step-back approach keeps the uptrend intact, but also enables it to keep drawing fresh market interest and keep going.

I don't believe we have seen the end to increases in inflation expectations in the US, nor potentially to the end of rises in real bond yields, which still have a way to go before we might conclude that they have reached a sensible level, which means no longer substantially negative, even if a decent positive real yield remains elusive.

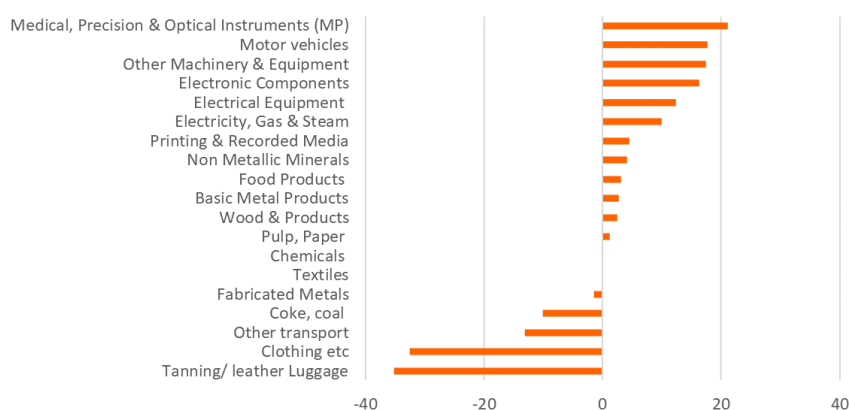
Divergence between Fed and ECB a factor for EURUSD?

One of the clearest divergencies in central bank rhetoric currently is between the ECB and the US Fed. Yesterday, The Fed's Barkin declared he was not too concerned by the increase in US Treasury yields, as it reflected greater optimism about the recovery, and some improvement in inflation expectations - both things the US Fed has been trying to achieve. Barkin says he remains more concerned about the US labour market, where there is still plenty of slack.

Compare that with the ECB's Villeroy de Galhau, who remarked that the ECB "...can and must react..." against any unwarranted rise in bond yields that threatens to undermine the euro area economy. With this difference in central bank stance getting more glaring, one could be forgiven for thinking that this undermines thoughts of a much weaker USD, and again overnight, the USD had a decent day, dropping to just a bit over 1.20.

Further Fed commentary may be available this time tomorrow, as both Brainard and Daly will have spoken at various events, so we may get a further angle on Fed sentiment.

Korean production by item type (YoY%) January 2021



Source: CEIC
Korean production

Korean production, a bit up and a bit down

I have found it virtually impossible to draw any firm conclusions on Korea's January industrial production data out this morning. Although the year-on-year production growth rate increased to 7.5% in January, up from 2.5% in December and stronger than the 5.9% expected, this came as a result of a much weaker than expected monthly growth figure, which showed production declining by 1.6%MoM. The only way you can reconcile these two events is if the history of production data over the last year has been extensively revised lower.

The breakdown of production growth by component shows technology and electronics still leading the way, but there is quite a drag from clothing and items associated with travel such as luggage.

Most items are showing non-descript growth of low single digits, and it is only when you get to electrical equipment that the growth rates look to pick up. This data is not inconsistent with the poor Korean labour market data we have seen recently, and indicates that the BoK will not be rushing to normalize their policy rates any time soon - certainly not this year, and maybe not until well into next.

RBA meeting

After their recent intervention in the bond market, the RBA's monetary policy statement due out this morning might also make interesting reading. The 3Y Government bond yield remains a shade over the 0.1% target, and though 10Y Australian government bond yields are off their recent 1.9277% highs, they do show signs of creeping higher again from their current level of 1.6663%.

The RBA may be able to influence their own bond market (actually, that is yet to be conclusively proven), but it is not clear how much of the recent rally was their doing, and how much just the spillover from the correction in the UST market. One thing is sure, if US Treasury yields decide to power higher, the RBA does not have the firepower to stand in its way and Australian bond yields will be dragged higher. So even if the policy statement outlines a greater commitment to keeping bond yields under wraps, except for the front end of the curve, I wouldn't read too much into that.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic
420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com