

Past its peak

Saying that bonds are past their peak is not a useful contribution to the question of whether we are nearing a recession. Sadly, little else is either.



rotten fruit

Billionaires can say what they want

Stocks rose yesterday. Some are calling this the end of the rout. That may be true. But it is only an opinion. Supporting the view, yesterday's S&P500 action saw every sector rise, though rate sensitive real estate only just made it into the green. Bond yields were dragged higher by equities - the causation shifting from bonds to equities to equities to bonds in the last session. All of this is encouraging, and technical analysts will no doubt also find some consolation in the charts that show the index recovering above key retracement levels, and bouncing off 200-day moving averages.

Yet others, notably certain billionaire investors, are pointing to the bond markets' continued rise in yields as indicative of an economy that is getting nearer to a recession, and thereby, imperiling this nascent equity recovery. What do I think?

I think that a lot of people waste a lot of other people's time with such views. Every day that passes is a day closer to the next recession. That is a fact. But that does not make recession imminent. Some months ago such commentators worried that the flattening yield curve was a harbinger of recession. We wrote that we disagreed with this analysis then. It is fairly easy to write

off the view that a bear-steepening is also a harbinger of doom fairly easily too.

The unpalatable truth is that most of the big movements of financial markets and turning points of economies are next to impossible to predict. And mapping financial markets onto the economy is almost as unrewarding as trying to map the economy onto movements in financial markets. The scores of financial and economic models that get trotted out from time to time designed to predict recessions are all virtually alike in that by the time they provide a signal, it's pretty clear anyway. Others ruin their reputation with scores of false readings. The Samuelson quote, "the stock market has predicted nine of the last five recessions" is worth keeping in the back of your mind at all times.

Is recession a risk? It would take a fool to say no, but right now, all we have seen is a return to some "healthier" two-way risk in financial markets that means investors will have to think first before committing their funds. That, in my opinion, is not likely to bring recession any closer than it already is - whenever that is. As for the economy, it is another day almost devoid of information, so for our next installment of this recession argument, we need to look for tomorrow's US CPI data. That should calm recession fears, if only for one month.

Korean export prices fall for second month

It's clearly a quiet day for macro if we feel compelled to report Korean export and import prices. Korean export prices fell in January by a modest 0.4% MoM. but they are now down 3.5%YoY, and the January decline marked the third consecutive fall. Given the prominence of semiconductors in Korea's export basket, it is worth considering if this is a further indication that the semiconductor cycle has turned. If so, export volumes could be next. Given how widespread the semiconductor industry is in the region, this will not be only a Korean problem, but Korea and Taiwan are the canaries in this particular coal-mine and will need watching carefully

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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