

Risk off driving markets

There's not just a single factor driving markets, but many, though they are mostly pointing the same way - a reduction of risk appetite...



Source: Shutterstock

Risk on or risk off? It's risk off

The daily task of unravelling what mood the market is in is not always an easy one, but right at the moment, it seems pretty clear. Friday's equity action doesn't send a screaming message of fear, with the S&P500 slightly down on the day and the Nasdaq actually making gains. But the picture elsewhere is more obvious. A further sharp rally in EURUSD of about a big figure, taking it to about 1.1274 could just be a response to Europe's more aggressive lockdown plans against the backdrop of surging European Covid cases. But that wouldn't explain away the slight gains in the JPY - a traditional safe-haven currency in times of stress. So this seems more than a simple "Europe" effect. Indeed, in the Asia-Pacific, the AUD was weaker than the rest of its peers on Friday, along with high-beta currencies like the KRW, so this feels more of a classic "risk-off" move than anything country or region-specific.

These equity and FX moves are echoed by the bond market, where more curve flattening was the order for the day on Friday. The socializing of the message of a more rapid taper and by implication, more imminent and faster liftoff from the Fed is keeping yields at the front end of the Treasury yield curve elevated, but depressing them at the back end. That's consistent with fear that a more active Fed will snuff out the recovery earlier than a more laid back Fed. And this is

where the choice of the next Fed chair could also be pivotal, with Brainard judged to be a little more dovish than Powell - yet we still have not had any confirmation of who will get the next 4-year term - something we were led to believe was imminent at the end of last week. Falling oil prices also tie in with the slower global growth outlook that is gripping markets and we don't get much on the economic calendar this week to either confirm or dispel such thoughts. US personal income and spending figures for October at the end of the week are probably the main pick of the economic releases this week.

Adding noise to the mix is news that China's authorities are signalling to banks their disquiet over recent CNY gains, which raises the prospect of some weaker fixes over the coming week. This will send a message to markets that price action should not be one-way and maybe provide a few metaphorical bloody noses to make the point more clearly. With the CNY a force for regional currency moves, this could also exacerbate recent regional FX weakness.

And then there is the rising concern about Russian military build-up on the Ukraine border. Any military escalation here would also likely support the USD near-term and see longer-dated Treasury yields fall further. And it probably doesn't help that against this tense backdrop, Turkey's financial markets seem to be having one of their sporadic meltdowns. There may be no direct linkages between Turkey and EM Asia, but broader EM angst does have a habit of spreading, and Turkey often seems to be at the epicenter of these moves when they kick-off. Could be an interesting week...

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.