The wobble continues

Global sentiment has been buoyed by optimism that a US government shutdown can be avoided - but we see this as a temporary lull in the fortunes of the USD. Otherwise, a day of inaction beckons from Asian central banks

Jelly

Rising sentiment ahead of Senate vote on spending bill

With the end of the week spelling make or break time for discussions over averting the US government shutdown, Republican lawmakers are expressing optimism that enough Democrats sign up to the extension to avert a crisis. Markets seem to be leaning that way too. And as we noted in yesterday's ramble, that is allowing the USD to push back against the EUR, in what we view as a temporary correction of a broader EUR rally. Stocks too seem to be making the best of the limited good news emanating from the Capitol, and bond yields are nosing higher again. About the only constant in markets right now seems to be the front end of the US Treasury curve, where 2Y yields keep pushing higher. You can almost use a ruler to chart this rise.

The good news is not confined to the political backdrop. US production soared 0.9%MoM in December and capacity utilisation is pushing sharply higher. As well as suggesting a pick up in already healthy business investment, in the past, this might also have suggested higher inflation. We aren't so sure today if that follows. If in doubt, assume not.

The G-7 saw some central bank action yesterday, with the Bank of Canada hiking rates to 1.25%, and hinting at more to come, depending on how NAFTA talks go. We get some central bank action or rather, inaction in Asia today. The Bank of Korea has been making noise about the strength of the KRW in recent weeks, which 1) suggests that they aren't going to hike today and 2) they might have considered probable when they hiked rates at the back end of last November. We wonder if they will take the opportunity of today's meeting to pour a little cold water on hike expectations. We are a little more hawkish than the consensus, with 2 further hikes from the BoK this year, but in any case, we don't look for anything more until 2Q18. Despite strong growth, output remains narrowly based and vulnerable in our opinion, and inflation remains very benign currently, as it is almost everywhere. Unless the USD maintains today's rally, we might have to shift our rate forecasts back a bit.

The other Asian central bank meeting today is in Indonesia. Back-to-back rate cuts in Indonesia last year caused the IDR to sell off through 4Q17, but the currency has been resurgent since the beginning of the New Year and is now approximately 13360, virtually back to pre-sell of levels. Consensus is unanimous in looking for no further cut from BI today (see also our BI preview), but it isn't unthinkable that there is more easing in 2018 (not our house view incidentally) if growth does not push meaningfully above 5.0% and inflation remains at the low end of the 3-5% target range. Again, the direction of the USD could be pivotal.

Aside from Central Banks, Chinese GDP is the other big regional release. And although headline numbers attract the usual degree of suspicion, there may be some positive response to an upside surprise to the consensus 6.7YoY figure, if hints by Premier Li Keqiang are accurate.

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