

Asian markets rally on Fed rate hopes, oil eases after surge

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Online Desk: Equities rallied Tuesday after top Federal Reserve officials suggested the recent spike in US Treasury yields could act as a substitute for further interest rate hikes. The big gains came as oil pared the previous day's surge, which had been fueled by supply worries after Hamas launched a deadly weekend attack on Israel. Traders are hoping the crisis does not spread to the wider, crude-rich Middle East. Despite growing geopolitical tensions, traders have enjoyed a positive start to the week, helped by Friday's forecast-busting US jobs report that also showed wage gains slowing — a so-called “Goldilocks” scenario in which the data was neither too weak nor too strong.

The upbeat mood was boosted Monday after Fed Vice Chair Philip Jefferson said the recent spike in US Treasury yields to multi-year highs could provide the necessary restraint on credit that would be achieved by higher interest rates. “Looking ahead, I will remain cognizant of the tightening in financial conditions through higher bond yields and will keep that in mind as I assess the future path of policy,” he told a National Association for Business Economics conference in Dallas.

His comments echoed those of Dallas Fed President Lorie Logan, who suggested that if bond market costs were on the rise, that “could do some of the work of cooling the economy for us, leaving less need for additional monetary policy tightening”. That came after San Francisco Fed chief Mary Daly said last week that “if financial conditions, which have tightened considerably in the past 90 days, remain tight, the need for us to take further action is diminished”. Wall Street welcomed the possibly more dovish approach by the central bank, and soothed fears that more pain was to come as officials battle to bring inflation to heel.

While the US economy remains in rude health, fears had been rising that more tightening would eventually tip it into recession next year. Minutes from the Fed's September policy meeting are due to be released Wednesday, while inflation figures are also set to be released. Asia enjoyed a strong run-up, with Hong Kong and Tokyo up more than two percent, while Sydney, Seoul and Singapore were more than one percent higher. Shanghai, Wellington, Manila and Jakarta were also in positive territory. “The markets all of a sudden are doing all the dirty work for the Fed,” Yelena Shulyatyeva, senior US economist at BNP Paribas, said. “It seems like the majority, including some of the more hawkish policymakers, are OK with proceeding more cautiously.”

And Alliance Securities' Andrew Brenner added: “The script has changed. The odds for another tightening have dropped dramatically since Friday.” Oil markets calmed after soaring Monday in reaction to the attack on Israel, though traders were keeping a close eye on developments as Tel Aviv carried out retaliatory attacks on Gaza. Claims that Tehran helped Hamas plan the raids have stoked fears Israel will hit major crude-producer Iran, which would cause a major escalation and likely send prices higher. Iran has denied the claims. “The market remains very sensitive to the risk of further ramifications from the Israel-Hamas conflict, suggesting volatility particularly in the energy sector is likely to remain elevated with Iran a major concern here,” said National Australia Bank's Rodrigo Catril.