

Asia Morning Bites

Prelude to Powell uniformly hawkish...



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Macro Outlook

- **Global Markets:** US equities seem to be betting on the Fed's Powell providing a lifeline, which seems like an optimistic point of view. The S&P500 opened up and had a strong start before fading and then rallying hard into the close to finish up 1.41% on the day. The NASDAQ closed 1.67% higher. Equity futures are hedging this optimism a bit, indicating small declines at the open today. The latest optimism could reflect a slightly lower bond yield environment, but it seems outsized if that is indeed the case. 2Y US Treasury yields backed off only 2.4bp yesterday to take them to 3.366%. There was a bit more action at the back end of the curve, where 10Y UST yields fell 7.8bp, taking them to 3.026%. What caused that? Well, it wasn't other Fed speakers in the run-up to Powell's speech at Jackson Hole today. James Bullard, for example, noted that he favoured "front-loading", and a year-end Fed funds rate of 3.75%-4%. Esther George noted that rates may have to go above 4%, and hadn't moved into a restrictive range yet. Raphael Bostic said it was too soon to call peak inflation and was keeping an open mind on 50bp to 75bp next month, and Patrick Harker said rates needed to become restrictive (implying that they currently aren't). So it is a fair bet that the Powell speech will take a similar turn today. If so, the most likely market reaction would be a rise in yields at both the front and back of the yield curve, a sell-off in equities and dollar strength as markets seem to have been positioning themselves for a more supportive set of comments. In currency space, EURUSD had another go at moving

higher, pushing up in the direction of 1.004 before retreating back below parity to finish almost unchanged from this time yesterday at 0.9970. The AUD has made further gains though, rising to 0.6982 vs the dollar before settling a bit lower at 0.6972. Cable is looking a little stronger today too, and is up to 1.1829 now, while the JPY has pulled back down to below 137 and is now 136.57. The rest of the Asian FX pack also gained, led by the THB (helped by the passing of a budget yesterday) and the KRW (lifted by the BoK's 25bp rate hike).

- **G-7 Macro:** It really all boils down to what Jerome Powell says today, and his speech will eclipse any of the other macro releases in all likelihood. We have already had some Tokyo CPI data this morning for August, and this shows annual inflation for the Japanese capital running at 2.9%, up from 2.5% in July. This suggests a similar 0.4pp increase in national headline inflation, which would take it to 3.0%YoY if so. The rise in the core rate of inflation excluding fresh food and energy was more muted, however, rising only 0.2pp to 1.4%YoY, which should provide the BoJ with the comfort it needs to leave policy settings unchanged. PCE inflation data from the US for July are out today. Look in particular at the core measure which the Fed is thought to be taking a bit more interest in than the headline. The current rate of PCE inflation is 6.8%YoY. It is 4.8% for the core rate. The core rate is expected to fall 0.1pp today. A flat reading would be a disappointment. University of Michigan consumer sentiment and inflation expectations close out the macro calendar for the G-7 today.

What to look out for: Powell's speech at Jackson Hole

- Japan Tokyo CPI inflation (26 August)
- Singapore industrial production (26 August)
- Thailand trade balance (26 August)
- Malaysia CPI inflation (26 August)
- Powell speech at Jackson Hole symposium (26 August)
- US University of Michigan sentiment and core PCE (26 August)

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