

# Asia Morning Bites

Prelude to Powell uniformly hawkish...



## Asia Morning Bites

Source: shutterstock

### 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)

### Author

#### Robert Carnell

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto: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>.