

## Good MornING Asia - 27 February 2018

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By Robert Carnell



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Source: Federal Reserve

### Powell - may opt to play it safe

In recent days, we have suggested that one strategy for incoming Fed Chair, Jerome Powell, will be to sound more hawkish than he really is. This is all about building a reputation for hawkishness, that may enable him to act more credibly (efficiently) in the future - perhaps even resulting in a lower terminal Fed funds rate. But the backdrop of jittery markets cannot be wholly ignored. As such, the more likely outcome for Powell may be a speech and answers that differ insubstantially from the language used by his predecessor, Janet Yellen. He has more to lose today than he has to gain.

The time to stamp your authority on a new job is, admittedly, right at the beginning, so adopting a Yellen-like stance early on could pose some difficulties later. Luckily for Powell, he does not inherit an inflation problem, rather, a lack of one, so the trade off between reputation building and pragmatic demand management is a relatively easy one. But that could begin to change over the coming months.

Clearly, if Powell does opt to take a harder line, we will likely see the US Treasury curve flattening -

though the outcome for equities will crucially depend on how this flattening occurs. If it is with higher longer term bond yields, then we might well brace for another sell off in equities.

1.5%

BoK policy rate

Expected unchanged by all forecasters

## BoK - nothing to see here

There is complete unanimity in the consensus for the BoK meeting later today. Hardly surprising. Sure, growth is OK, if all you care about is numbers. The mix is not too bad either, with a reasonable mix of domestic demand to overall growth, probably helped by the last budget's minimum wage rises and public sector employment increases. This might seem like old school socialist economics, but in a world of ever rising inequality, and soggy demand, it is probably what was needed, and not just in Korea. The export picture is less bright. Net exports have been a drag on growth recently, and the mix of exports is very narrowly focussed around semiconductors.

The strength of the KRW is not a particular issue. On neither nominal nor real effective exchange rate bases does the KRW look particularly misaligned, at least relative to other Asian FX peers. Recent KRW softness during the February volatility has not entirely been reversed. We would look for the KRW to recommence appreciating in the coming months, with or without any help from the BoK.

But the over-arching issue for the BoK is inflation. Not only is the headline inflation rate only 1.0%YoY, but core inflation is only 1.1% too. Until and unless we see inflation heading back up towards 2%, there seems little likelihood of the BoK doing anything with policy. When this might happen is not clear. What is clear, is that it won't happen anytime soon. We expect nothing from the BoK until later this year when we have one hike pencilled in.

## ECB - Come on Draghi! When is the outcome ever certain?

Skirting the Latvian fiasco, ECB President, Mario Draghi, stuck to his increasingly non-credible story that the Eurozone economy needed further stimulus, in spite of ongoing solid growth figures. "In the presence of an economic situation that is improving constantly, we need the right blend"...."uncertainties continue to prevail". If uncertainty was the only argument for monetary easing, central banks would never tighten. Draghi avoided any direct references to the EUR, though noted that it needed "close monitoring". He will have to bite the bullet on tapering and an end to QE at some point, and the EUR is never going to make this easy. But prevarication will only make this harder, and the adjustment more painful.

## Singapore - the chips are up

Following some fairly uninspiring data flow in recent months, our hesitant call for a very small tightening by the Monetary Authority of Singapore at the April meeting, got a small boost from January industrial production data yesterday. Overall production rose 6.7%MoM, for a 17.9% YoY gain. But the result would have looked less impressive had it not been for a 12.5%MoM gain in semiconductors. A rare gain in pharmaceuticals (+26%MoM) and medical technology (8.5%MoM),

certainly helped. Given recent trends, this looks more like a one-off than a trend change. And outside semiconductors, other electronics growth was weak, or non-existent. While our confidence in the MAS call is not strong, these figures provide a crumb of comfort. But the narrowness of production gains and export strength still concerns us.

## Author

### **Robert Carnell**

Regional Head of Research, Asia-Pacific

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

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Source: istock

May  
2018

New central bank governor starts his 5-yr term

Continuity and stability

## Dep. Governor Perry Warjiyo represents continuity, stability and wealth of experience

After 34 years at BI, Indonesia's central bank, Dep. Governor Warjiyo is well prepared to take the helm of the institution with his depth of experience in witnessing first-hand cycles that have

buffeted BI and the economy. He carries not only deep knowledge of this experience but also a strong sense of monetary policymaking. His years at the central bank have been largely focused on crafting monetary policy mix. His research and position papers seen in the Bank of International Settlement (BIS) expounded on the importance, role and effectiveness of monetary policy tools. The mix includes interest rates, the FX rate and macro-prudential instruments as well as policies that address the twin goals of BI - price and financial system stability. In crafting the policy mix, the Dep. Governor and BI take into consideration linkages within the financial system but also linkages between the financial sector and the real economy. We believe that this selection is a choice for continuity, stability and knowledge. Other candidates also fit the criteria but the wealth of experience and understanding seems to have weighed in the deputy governor's favour. The next step in the selection process is parliamentary confirmation after a "fit and proper" test is conducted by next month.

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