

A further boost from the Fed

Asian FX continues to gain ground as the Fed indicates that the balance sheet roll off might end this year.



Source: Shutterstock

It's all an illusion

Short of reducing some of the inherent demand at ongoing Treasury auctions, the glacially slow roll off of the Fed's maturing assets has no relevance for financial markets. That is a pretty bold statement and is almost right except for one thing. Financial markets think it is relevant. That, therefore, means that it is. This roll-off does not deplete bank reserves. It does not limit the financial sector's ability to extend loans. It has, since its initial use to buy assets, little impact on the current price or yield of existing assets, though I will accept an argument that it keeps the term premium on longer-term bonds artificially low (negative) as until a shortage in overnight dollars re-emerges in the distant future, there is really no need to reward locking yourself into a longer-term asset with a higher yield.

Indeed, any suggestion that the "balance sheet" effects of quantitative easing had an effect on financial markets by limiting the supply of risk free assets and encouraging the purchase of equities, and higher risk credit, was surely totally undermined when the current tax reform flooded the market with Treasury bills and notes to fund the rapid increase in the budget deficit. Sure we can add the economists "everything else being equal..." qualifier to this. But when does that ever hold?

So the FOMC's strong hint that the balance sheet roll off might end by the end of the year is simply an extension of the smoke and mirrors approach to monetary policy that has been entrenched in recent years. This seeks to influence behaviour by doing and saying things that on their own, have little meaning, but which collectively, are taken to be important. As such, they can work...a bit. Though it takes huge sums to have any significant impact, as the trillions employed in QE have demonstrated.

I am in a vanishingly small minority calling the "Emperor's new clothes" of modern monetary policy a bluff. And perhaps I should shut up. If others begin to agree, none of this will make a blind bit of difference, and central banks will appear even weaker than they already do now. For now, markets are responding positively to this. The USD continues to look a bit soft, and that is helping to lift Asian FX.

Still some scope for a further hike this year

While the proposed end of the balance sheet roll-off might be providing some support to markets, the FOMC minutes have not written off further rate hikes this year altogether. ING still sees room for one further hike this year. And I fully share the house view on this, though it is subject to the lags inherent in the inflation process and monetary policy. And there may still be a horse race at work between the slowing parts of the economy (business investment and property) and those parts that are still red hot (labour market). Time will tell, but it is possible that the peak Fed funds has already been reached.

UK political implosion

I don't want to spend time lamenting the abysmal debacle that is the Brexit negotiation. Wake me up when it is all over. The pound is getting battered. And rightly so. Rating agencies are adding to its woes talking of downgrades. That won't cut any mustard with those in the Conservative clique, the European Research Group (a more inappropriately named group has arguably yet to be devised).

What I will say, however, is how interesting it is that the apparent implosion of UK politics is happening from both sides of the political spectrum, with Labour and Conservatives alike abandoning their mother parties. This is coalescing into a new movement around a moderate centre party. In all of the political madness that has gripped much of the world in recent years, with swings to various hues of populism, this is a rare backlash towards moderation and pragmatism, and away from dogma and nationalism. The only other instance I can think of is the surprise election of President Macron in France. Cries of "traitor" in social media only make these people seem more principled. I wonder if it could catch on?

Asia Day ahead

Australian labour data is out at almost the time this note gets distributed, so if it shows anything worth reporting, we will cover it separately. The consensus is pretty meaningless for this choppy data. But it isn't too far from our own house view of a further 15K rise in employment, with the full time/part time split as ever being important.

Bank Indonesia is meeting today - we don't expect them to change policy rates. Their primary concern is still addressing the current account deficit, which won't be helped by cutting rates. Though if they make progress on the current account, then a small cut could still be a possibility

later in the year.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com