

A switch of focus

Today we can hopefully take a break from Trump-watching, and look towards the Eurozone instead, where the ECB decides whether to inch closer to a taper or not



Rose

Bored of Trump and Trade? Try ECB instead

For a change, today, we can focus on something other than Trump and trade. Today, the European Central Bank decides whether to amend their statement on monetary policy. Sounds dull? Well, you're probably right, but in the world of economics and central banks, this is racy stuff. In the introductory statement to the ECB's monthly policy decisions, ECB president, Mario Draghi, offers a summary. This contains a number of key sentences. Right now, the main one to watch is this: "If the outlook becomes less favourable, or if financial conditions become inconsistent with further progress towards a sustained adjustment in the path of inflation, we stand ready to increase the asset purchase programme (APP) in terms of size and/or duration".

The point of this is to suggest that the ECB policy, although clearly moving towards an end to asset purchases, still has an inherent easing bias. This, to anyone who has been watching Eurozone economic data flows over the last couple of years, is complete and utter nonsense.

Yes, the Eurozone has low inflation, so does everyone else. Growth data are strong, and the labour market is improving continuously. You would have to have lost touch with reason to believe that the ECB is doing anything other than slowly gearing up for an end to asset purchases and negative

interest rates. Yet still, the market hangs on these words uttered by Draghi as if they had some sort of meaning. Markets can move, and move substantially on this sort of stuff.

Let's suppose, as an analogy, a child breaks its mother's prized vase. It waits until it sees its mother in a good mood before telling her. This in no way alters the state of the vase or the timing of when it got broken. But the resulting backlash in terms of punishment could be less. However, in this case, we are all fully aware of the state of the vase, or in this case the economy and financial markets. Draghi owning up should be no more than a statement of the obvious, which it is. The reality, however, is that markets will seize on this as highly meaningful and the Euro could well rally, and Eurozone government bonds sell off significantly in response.

For the record, we don't expect Draghi to "fess-up" today. But the direction of markets in the coming months is as obvious as if Draghi were standing in shards of broken pottery and dead flowers.

In case you were missing the Trump / trade story...

In case you were missing the Trump/trade story since Gary Cohn's departure yesterday, a number of Trump's remaining economic advisers have been trying to patch up the damage of this latest incident. Most notably, remarking that other countries might also gain exemptions from his steel and aluminium tariffs, not just Canada and Mexico (in the event that they sign up to an amended NAFTA agreement).

This may go some way to restoring market calm, though remains a Damocles sword hanging over the NAFTA negotiators. A sort of "Give me what I want on trade or the puppy gets it" approach.

Newswires are touting the possibility of a statement on this today, so you won't have to go Trump-less after all if so.

Day ahead

It is a fairly quiet day today in both the G-7 (ex-ECB) and Asia, though we have US non-farm payrolls to look forward to tomorrow.

Yesterday, we had a strong US ADP employment report, though it contains no wages data, so is a bit tangential to the market's focus right now. But we did get the US Fed's Beige-book overnight. Amongst the uninteresting stuff, it did note that wages growth picked up moderately in many districts, which could indicate a further rise from last month's 2.9%YoY average hourly earnings growth. That would push up both the USD and US Treasury yields.

Data out already today include a solid upward revision to Japan's 4Q17 GDP from 0.5% to 1.6% - further reason to imagine that the Bank of Japan will go the same way with monetary policy as the ECB this year, though perhaps not as quickly.

Australia's January trade balance rebounded far more than had been expected, recording a AUD1055m surplus, delivering some lift to the currency.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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