

All hail the “New Powell”

Powell repeats patience message, Moon sticks to policy mix for Korea, Brexit nears a crunch moment for May



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Powell - patience running thin

My children would certainly attest to the fact that I am not a patient man, hence my school-gate nickname amongst their peers at their former school of "shouty-Dad". And my patience is certainly wearing thin with this "New Powell". All touchy-feely, patient, sensitive to the market. Let's face it, the so-called "market" is one of the most pampered beasts on the planet. Dynasties of central bankers have successively fueled bubbles in various financial and real asset markets. Yet when there is even a bit of a correction, monetary policy seems to go into a state of suspended animation until the market feels happier again. I wish I got treated so well.

I actually liked "Old-Powell". He told it as it was. Policy would be raised as necessary, and would likely go higher, depending on the data, said "Old Powell". That fit with the macroeconomic story. The stock market was just one element of this, and might indeed suffer for a while as this transition took place. That would simply provide a fresh buying opportunity for many.

As previous Fed chairs have found out, when you withhold the nasty medicine from the hysterical patient for too long, the shock of readministering it later-on can lead to seizures - economic and market. In short, Forward guidance is only credible if it is consistent with the economic facts. And it is only effective if it is credible. Right now, these same macro facts point to future tightening being modest - one or two further hikes only this year. But monetary policy will still be tightened further. Not eased.

It feels as if markets are slowly realizing this. US Stocks did rise a little further yesterday. But the price action was not convincing. The repetition of the "New Powell" message on patience seems to be losing its effect. Lacking any new substance that would lend the market skew towards easier policy more credibly, this was inevitable.

Hard Moon landing?

President Moon of S Korea has said in a New Year address that he will stick to policies aimed at alleviating inequality in S Korea. Given the rise in populist politics around the globe, where inequality plays a substantial role, alongside issues like national identity and immigration, this would seem like a sure vote-winner. Moreover, you would think it would lead to greater contentment amongst the voting public than policies aimed squarely at pushing up GDP, with no heed to distributional effects.

Not so in Korea, where his popularity is falling, though this may perhaps be due to some slightly clumsy implementation of policies last year which resulted for a time in higher unemployment. That may be easing down again now, with the national rate at only 3.8%. Moreover, running 93rd out of 157 on the CIA World Factbook of inequality (measured by Gini coefficients), with a coefficient of 35.7, S.Korea is towards the unequal end for developed economies. It would probably help if Korea was not in the midst of a tech-driven overcapacity, inventory-led downturn of the old-fashioned variety. Perhaps all that went wrong previously was timing?

Brexit crunch-time nears for May

Virtually no one thinks PM May can win her Jan 14th vote on the Brexit Divorce deal. And Parliament has now voted that she must return with a plan B within 3 days of failing. The opposition Labour Party is calling for a General Election if the vote fails. Others are looking towards another referendum. Article-50 could be frozen in the event of either outcome. I can't be the only person who will be glad of a break from Brexit anxiety if we get a hiatus in the lurch towards exit..."Branxiety"? This could deliver a small GBP bounce.

Today's Data watch

The day hasn't started well in Asia with a poor household spending figure for November of -0.6%YoY for Japan, not quite the robust bounce-back post-Typhoon Jebi we had been hoping for. We may have to trim back our robust 4Q18 GDP expectation. Current account data were better, showing a smaller deterioration in the surplus than had been expected, coming in at JPY757bn though still lower than the JPY1.3tn October reading. Bank lending data were also

stronger at 2.4%YoY from 2.1%, and look to be trending higher, which is more encouraging from an investment perspective.

Retail sales data from Australia and Singapore provide most of the Asia excitement for the day, along with Malaysian IP, which should reflect the earlier electronics-led slowdown in exports and crimp 4Q GDP growth prospects.

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