And for my next trick...

Fed's Powell delivers what the market had anticipated, and it responded accordingly. I'd still like to know how he is going to reach, let alone exceed 2% inflation. But he has bought markets some more time.

Source: Shutterstock

OK, now what?

Jerome Powell delivered almost exactly what markets had been expecting in his Jackson Hole speech yesterday, and as our US economist, James Knightley put it in his note (attached) "we really, really, really aren't going to raise rates soon".

Well, James, I'll see your, "really, really, really, not soon", and raise you a "never". Because if previous history is any guide, given that the Fed has hit its 2% target on the core rate of PCE inflation on only 11 months in the last decade, I fail to see how they are going to exceed 2% for any time to allow for rates to rise again, ever!

Bond yields have risen following Powell's speech, as not only was it a reasonably credible commitment to leaving policy at least as accommodative as it is now for a bewilderingly long time, but it also implies some further easing at some point. And according to some of the big US bulge bracket analysts being quoted this morning, this may take the form of more forward guidance and tweaked QE at the September FOMC.

That might well be what the Fed does in September, but who's kidding who if they think a few weasel words and a bit more bond-buying will do anything to the real economy to deliver higher inflation to the degree they are now targeting. Bloomberg's Brian Chapatta is more on the money today when he says that the Fed won't be able to just talk inflation higher. He's absolutely right.

Which begs the question, how long will markets be taken in during this modern-day re-run of the HC Andersen fairy tale of the Emperor's New Clothes? And can we be the first to cry "He's got nothing on!"?

For now, and as predicted, US Treasury bond yields have risen, the yield curve has steepened, and equities are still loving it. Only the USD seems to be a bit undecided. We may need to see bond yields rise a bit further yet to reverse the recent trend for weakness. And that may also call into question the equity market's strength too...

Food for thought

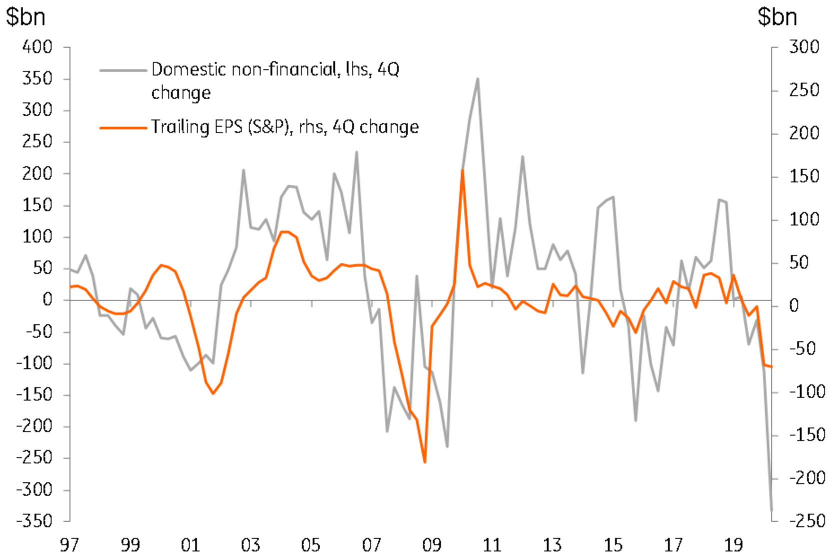
Here's a little gift to take into the weekend. In the chart below, I show the non-financial domestic profits series from the second release we got from the US GDP numbers the other day. I also show trailing eps for the S&P500. These are quarter on four-quarter ago changes - annualised. Its a bit fiddly, but that helps with getting rid of seasonality.

The latest GDP based profits figures fell about $327bn from a year ago. Trailing eps, which is a downturn, usually follows these figures, is currently showing a much smaller decline.

OK - the backdrop also needs to take into account the extraordinary stimulus that has also been unleashed. But I think this chart helps you to keep a healthy dose of scepticism about current market valuations. We may see further gains, markets may stay strong for a long time. But they are not supported by much else apart from a hefty dollop of monetary magic, and some rapidly waning fiscal flummery. I'm just saying...

GDP-based corporate profit growth falls 25%

US GDP-based Profits



Source: CEIC, ING

US GDP based profits

Asia Today

In what will otherwise be a quiet day, for Macro, Prakash Sakpal provides some insight into today's Malaysian trade data and its implications for the MYR: "July trade data is due today. Favourable base year effects and recovery from the Covid-19 lockdown lifted export growth to 8.8% YoY in June and this boosted the monthly trade surplus to a record MYR 21 billion. We argued that this strength was transitory and would reverse in July, as the base effect became unfavourable again. Indeed, the consensus estimate of -1.4% YoY for July supports this view, though it appears at risk of more downside than upside surprise. Maybe not as much as our -15% YoY forecast though. Commodities, especially oil and gas, will continue to be a weak spot in exports. EM strength since June has helped the MYR clawback some of its losses from earlier in the year. Yet, it's still an underperforming Asian currency so far this year and is likely to remain so over the remainder of the year".

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