Asia awaits the "Powell-put"

Markets in Asia and elsewhere are waiting for what looks likely to be more monetary stimulus from the US Fed later this week.

How far will Fed Chair, Jerome Powell, push back market expectations?

Markets taking comfort from the Fed

I managed to turn my computer on this morning, not a bad feat after two weeks away. if nothing else, it suggests that I have not become too old to do this job, remembering the string of different passwords needed to fire up the old box and all the accompanying software. Well done me. I am considering taking the rest of the morning off to celebrate...

Markets also looked relatively upbeat this morning, probably taking some solace from the likely Fed rate cut coming later this week. James Knightley covers all the detail in this linked note. But even though markets remain too aggressive in their expectations, an insurance cut of 25-50bp over the next two to three months is surely better than 100bp of cuts required because a recession is looming? I'd think so. it's basically free money.

In terms of equities, rather than the record highs being recorded in the US, Asian markets seem steady or maintaining local highs. That probably isn't a bad outcome either given a) the trade war - though talks are on again I see with US reps headed to Shanghai today b) sectoral issues related to the electronics industry and c) mounting concern over the unrest in Hong Kong.

This last element is too political for me to comment on in detail without inadvertently tripping over an editorial or compliance hurdle, though I will note that Hong Kong's Finance Secretary Paul

Chan believes the unrest could weigh on GDP - that seems uncontroversial.

Our Greater China Economist, Iris Pang also notes on this subject that "China is going to hold a press conference to address the issue of Hong Kong protests. We don't expect any big moves from China as it wants to maintain the "one country two systems." Still, we will monitor what China says in the press conference. In the very unlikely event that China allows the Liberation Army stationed in Hong Kong to patrol in the city, the press conference will be a highly market-moving event, and negative for Hong Kong's "one country two system" status".

Iris also comments on the trade deal today saying "After the China-US sideline meeting at the Osaka G20, millions of tons of US soybeans are now shipping to China. At the same time, the US announced that it would waive tariffs on 110 Chinese exports to the United States, and expressed its willingness to promote US companies to continue trading with relevant Chinese companies.

Source: http://international.caixin.com/2019-07-28/101444690.html

Though the two sides are making some friendly gestures to promote a trade deal, we believe that unless the US acts to allow US companies to do businesses with Huawei just as in the past, ie. release Huawei from the "entity list", the prospect of a deal is still very unlikely".

Asian FX steady ahead of Fed

Asian FX is likewise relatively calm, and except for the Fed, there isn't a lot on the calendar today to upset FX pairs. But this week sees a lot of PMI indicators released. Prakash Sakpal's week ahead note goes into more detail.

Fed rate cuts and steady local FX opens the door for more local central banks to ease further in the weeks and months ahead.

I am delighted to see the Bank of Korea easing whilst I was away, and as we forecast. More from them is likely, we suspect, and still needed as the latest cut simply undoes the November 2018 hike, so to achieve some real easing in the economy, we would need to see at least one more cut. At 1183, the KRW seems to have weathered the BoK's cut relatively well. A further easing won't cause too much further weakening.

Other likely easers include the Bank of Thailand (August possibly), the Monetary Authority of Singapore (we still think there is the possibility of an off-cycle easing - recent NODX data support this), Bank Indonesia (BI), and BSP (Philippine Central Bank). Easing for all of these central banks will be easier if the Fed is also in easing mode, and can be implemented without much fear of currency weakness and imported inflation (not that inflation is a pressing issue anywhere in the region right now).

The Bank of Japan also meets this week. USDJPY is currently at 108.60. Unless it pushes much lower, I don't think we will get any more than "verbal" policy support from the BoJ, or at most, some change to the formal wording of their forward guidance. Both can be written off as hollow and meaningless, given that there is no genuine policy substance behind any implied action. If the JPY starts to strengthen rapidly, I don't think the BoJ will be able to do a lot about it.

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