

## Asia's response to a more hawkish fed

With the Fed putting the world on notice that it is not asleep at the wheel, expect markets to be a lot less range-bound than they have been



Fed Chair, Jerome Powell

### Wake up, smell the macro

[Today's essential reading can be found on this link](#) - covering the Fed decision, and market reaction. Do please take the time to read it. It will be more useful than my rant below.

The last few months have been extremely frustrating. The macro story in the US (and Europe) has unfolded even more strongly than forecast, with stronger growth and higher inflation, and yet financial markets have been content to have their direction dictated to them by the Fed's guidance, which now turns out to have been inaccurate and overly dovish.

Talk of transitory inflation has only ever looked like a partial explanation of what is going on in the US (and globally) and has raised questions like, "how long exactly is transitory?" This is not the first time we have seen markets behaving like this. But since the global financial crisis, I would say that markets have been far too willing to just wait and react to what they are told to believe by central banks, and have done far less thinking and forward-looking for themselves. Strong growth, bottlenecks in labour supply, high inflation - this stuff all screamed "higher rates and sooner". But it has taken the Fed to tell markets how to think for them to respond appropriately.

I guess this is the by-product of reliance on "forward guidance". But it is worth remembering that central banks do not have perfect foresight, and they have a vested interest in trying to massage markets in a favourable direction, which, when it proves wide of the mark, results in an inevitable spike in volatility as markets catch up with reality. We appear to be experiencing a small dose of that today. There could be more to come if markets pay a little more attention to macro than they have been doing. Bottom line, there is still a job for economists with a critical eye...!

It is also interesting and noteworthy to see markets break out of the ranges they have been stuck in for the last couple of months - the EURUSD break on the downside is perhaps most noteworthy, and has reflected in Asia space in a big weakening in the KRW - the region's proxy currency. So far, equity moves have been quite modest. But if we are to see a larger shift to a risk-off position, we can expect more of this, with the KRW likely joined by the IDR, though all but the JPY will likely be hit to some extent if this is the direction markets travel.

The AUD and NZD were also both hit hard overnight - though the NZD less so - helped this morning by a strong 1.6%QoQ 1Q21 GDP figure, which lends support for expectations for a more hawkish RBNZ. The RBA's Governor, Philip Lowe, is speaking as I write, ahead of the labour market data released at 09:30 SGT. We will write that up later if it is worth comment.

## Asia today

In Asia today we have a reasonably busy calendar with some central bank (in)action. But before that, we already had Singapore's May non-Oil domestic exports, which delivered a disappointing 8.8%YoY increase off the back of a 0.1% MoM decline. Electronic exports did manage to maintain an 11%YoY pace of growth. But there is nothing in this release to threaten the Monetary Authority of Singapore's current stance (neutral path) on the nominal effective rate for the Singapore dollar when it formally considers this again in October.

Bank Indonesia meets today, and will not be changing their 7-day repo official policy rate, though we may need to consider nudging the timing for their first hike next year against this more hawkish Fed backdrop. sooner than we had thought is the likely forecast change.

And Taiwan's central bank will also not change its official policy rate today, though may set out what support measures it will undertake should the current Covid wave worsen.

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