

## Bienvenue Christine: IMF's Lagarde to take over ECB Presidency

The prospect of a more hawkish ECB President evaporates with the appointment of the IMF's Christine Lagarde - but EURUSD little changed so far



Lagarde

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### What sort of change could Lagarde bring?

The appointment of Christine Lagarde to take over from Mario Draghi when he steps down later this year is interesting. It highlights how weak the politics at the top of the EU are - that the front runner candidates could not gather sufficient consensus to be picked. It may also show that Germany and France are not above pulling rank to ensure that one of their preferred candidates (one from each country) gets one of the top jobs, after years of deferring to compromise or smaller countries, as Germany's Ursula von der Leyen gets the EU Commissioner job. I have yet to see any mention of the replacement Leader of the EU council...

Lagarde was certainly on the list of those compromise candidates that were considered early on in this process, but I remember seeing her name mentioned only a couple of times, compared, say, to Denmark's Vestager.

More importantly, is what Lagarde brings to the job. [My colleague, Carsten Brzeski adds his](#)

[thoughts here](#), with which I completely concur. But to paraphrase, and add my own spin, here are my own:

To the critics that note she is not a career economist, I would say, neither is Jermone Powell, and except for the President of the US, most people think he is doing a pretty good job. Moreover, the ECB is a committee, not a dictatorship, and as such, Lagarde's political background (France's Finance Minister before taking over at the IMF) should stand her in very good stead.

Furthermore, on its own, her CV is impressive enough. She stood by the EU during its debt crisis (attracted a deal of criticism from the US for doing so, but understood that without the IMF, the EU lacked sufficient political cohesion to act, and thus prevented crisis from becoming disaster). I also like the idea of having a few non-economists on the board of central banks. It should help prevent the sort of group-think that can lead to problems, while at the same time, its hard to imagine that as former G-7 Finance Minister, and IMF head, she has not picked up a few snippets of economics. Honestly, its not a tough subject to understand, and most central bank decisions seem to be based on little more than first-year economics, IS-LM, a bit of output gapology, maybe a nod in the direction of augmented Philipps curves. You could pick that up in an afternoon in a decent bookshop.

As for financial markets: Well, firstly, the ECB is in good, trusted hands so no need for too much anxiety. Second, as guardian of the EU during its debt crisis, it is hard to imagine that in terms of policy leanings, Lagarde will differ markedly from her predecessor. That takes a Weidmann-EUR rally off the table, though the single currency seems pretty steady this morning in Asian time, and this might pass with barely a ripple.

## RBA's Lowe signals patience

After surprising us a little (though not the consensus) with their rate cut yesterday, RBA Governor, Philip Lowe, later gave remarks that support a less aggressive outlook for rates than the market has until very recently been pricing in. In a speech in Darwin, Lowe remarked " ...we will be closely monitoring how things evolve **over coming months** (our emphasis). Given the circumstances, the Board is prepared to adjust interest rates again if needed to get us closer to full employment and achieve the inflation target".

So it looks as if the RBA is prepared to ease again, but we should not rush into it. A further penciled in 25bp rate cut for 4Q19 should do the trick as far as our forecasts are concerned. That is a little lower than we previously anticipated rates falling, but only by one cut. It still won't get the Australian unemployment rate anywhere near 4.5%, but it might get it closer to 5% (currently 5.2%). The AUDUSD looks reasonably firm today at a shade under 0.70.

## More contenders for Fed vacancies

Bloomberg is running with a story today about two nominations to fill empty Federal Reserve Board posts. The two named are Christopher Waller, and Judy Shelton. Waller is the more conventional pick. Director of Research for the St Louis Fed President, James Bullard. Bullard dissented (alone) at the last Fed meeting, but there is nothing crazy about his views. Indeed, he is probably one of the more thoughtful and insightful of all the regional Fed Presidents, and his unorthodox views provide an intellectual foil to the conventional wisdom that can dominate such institutions. I don't agree particularly with his current view, but that doesn't diminish the validity of his standpoint. Waller, if he matches any of Bullard's strengths, would be a solid addition to the

Fed, though in all likelihood, take it in a more dovish direction.

Shelton is harder to call. Apparently a "conservative economist" (does that mean anything?) and informal adviser to the US President. Her academic background is more Business Administration than pure Economics, but as noted in the comments about Christine Lagarde, that isn't necessarily a handicap. She has already apparently been approved for a job at the European Bank for Reconstruction and Development, so her confirmation for a Fed job by the Senate might be oiled by that. Other than that, I am in the dark about where her policy stance would lie. Probably also on the dovish side, or why would the US President have nominated her?

## Asia day ahead

It's a quiet day today in Asia. Australian PMI data is already out, and it is a bit softer, with the CBA PMI's for both services and the composite index drifting a little lower, though still comfortably North of the 50 boom-bust line.

Of the two Singapore PMI releases, the Markit measure has already been published, and shows a sharp fall to 50.6 from 52.1, only a little above contraction territory. The later release of the official measure, is likely to follow in the same direction (lower), though it is already in contraction territory, so may not fall quite as much. Further declines in that PMI could well spur thoughts of an intra-meeting adjustment of Singapore's monetary policy. MAS (Monetary Authority of Singapore) Managing Director, Ravi Menon, hinted in comments yesterday that such an outcome couldn't be ruled out. Indeed, the trade war, tech war and global tech slump hanging over the entire region, I should think that waiting until the next policy-setting meeting in October to downscale the SGD appreciation path might be too long a wait for the MAS. Look out also for Singapore's electronics sector index due this evening which could throw more light on this.

If an intra-meeting modification is indeed the next direction for MAS policy, it is not yet evident in short-term interest rates, where 3M SIBOR remains approximately 2.0%. We might look for short term rates to ease back a bit if the MAS is preparing to curb SGD strength.

China's Caixin services PMI is the other key release for the region today and is expected to fall slightly, though remain in expansion territory.

In the G-7, the main focus ahead of Friday's payrolls data may be the ADP survey of employment. The ADP was more accurate than normal last month, getting not only the direction of the payrolls move but also its magnitude broadly right. But with the market geared for Fed cuts, I suspect any rebound may be largely shrugged off today.

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