

## Central Bank Minutes? More like hours

The last 24 hours have delivered lots of central bank minutes for markets to absorb - but the net result seems to be more easing coming across the world.



egg timer

### It was an insurance cut - deal with it

Markets are a bit mixed this morning here in Asia. Stocks rose in the US overnight, well, they were down the day before, so a rise was due. The Fed minutes from the last meeting were the main focal point, and the central story was one that leaves Fed Chair Powell with a lot of work to do at Jackson Hole tomorrow.

Here's the problem in a nutshell: The last rate cut was an insurance rate cut. And the minutes support that proposition. Call it a mid-cycle correction if you will. But it amounts to the same. That suggests that there is at most another 25bp, 50bp if you are really generous, of easing to come.

Markets are still priced for more. Give or take the odd basis point here or there, markets are priced for Fed funds to be cut to 1% by the end of next year. The current Fed funds range is 2.0-2.25%, so 100-125bp of easing is priced. Something has to give.

### Weak consensus

Not all agreed within the Fed agreed, however. Some of the members felt that there was a case for

an immediate 50bp of easing. But others thought the case for any easing was weak. All of which means that another 25bp of easing should probably be a shoo-in, and even 50bp with a helpful tailwind from data and overseas risks. But there is still a way to go before the market will get what it wants - namely a longer spell of easing.

Leaving open that possibility, whilst emphasizing that the likely path is only modest reductions, could be a difficult path for Powell to tread. The market reaction to the Fed minutes has been quite substantial, with 2-year Treasury yields up more than 6bp, with 10Y yields up only 5bp. The 2s10s slope isn't inverted, but there is only about 1-2bp in it.

## India and Thailand also pen minutes

Central Banks in Asia have also been busy releasing minutes of recent meetings, most notably the Reserve Bank of India (RBI) and the Bank of Thailand (BoT). Prakash Sakpal pens his own thoughts on these below:

"Supporting their latest rate cut moves the central bank policy minutes in India and Thailand yesterday struck a dovish cord. In India, the RBI minutes tried to justify the unconventional 35bp rate cut on the need for a 'larger push' to the economy amid a continued benign inflation outlook and fiscal constraint. Though one policy committee member preferred more time for earlier policy transmission to take effect, noting that with such a big cut they "will be burning through monetary policy space without much to show for it".

And in Thailand, released alongside surprisingly strong July trade growth signaling a [good start for the economy in 2H19](#), the BoT policy minutes noted that "more accommodative monetary policy would foster the continuation of economic growth and the return of headline inflation to target in the context of heightened uncertainties mainly from external factors". We expect both these central banks to continue to cut rates over the rest of the year with the RBI doing an additional 50bp and the BoT at least 25bp more".

## Talking of central banks...

Talking of central banks, I have been invited to a round-table for a central bank from the Asia - Pacific region next week to chat about unconventional monetary policy. I'm looking forward to this. As you know, I think such policy has been badly mis-used in the past, and looks as if it will be so again in the near future.

I will be pressing the case for a non-linear investment-savings function at low nominal interest rates and hoping that they don't just respond with "Huh?". Hope there is a whiteboard and marker...this might take some convincing.

I'll fill you in after the event as much as I am able given the likely Chatham House rules nature of these things.

## China update

Iris Pang, our Greater China economist adds on the status of the US-China Trade War:

"China's regular Ministry of Commerce press conference emphasized that the US has to meet China halfway. However, we believe that it will be difficult for the US to give concessions ahead of September's trade negotiations and that as a result, China will stand firm. The stand-off on trade

should therefore continue".

That could put us back into a risk-off mode, especially as President Trump doesn't seem to like to let things stand - perhaps another ratchet up on the last \$300bn of tariffs?

Iris adds: "PBOC officials claim that the recent interest rate liberalization reforms won't replace RRR cuts and interest rate cuts if those are necessary for the economy. This matches our forecast of 0.5 percentage points cuts in RRR and 5bps cuts in 7D repo each in 3Q and 4Q, respectively to support borrowers during the trade war and technology war".

As we said earlier, rate cuts coming, across the world.

## Asia today

It's another reasonably quiet day here in Asia, but we have already had a surprisingly weak service sector PMI from Australia, dropping into a contractionary 49.2 from 52.3. Markets don't seem to be too bothered, with the AUD holding relatively firm following the RBA's own relatively upbeat minutes released earlier this week. The manufacturing PMI was also down, but only 0.3ppt to 51.3.

We also have central bank interest from Bank Indonesia (BI). They cut in July by 25bp and we don't expect them to follow up so soon with another cut, but another 25bp of easing in 4Q19 looks a good call. BI has been playing a cautious game, mindful of the potential for EM volatility to undermine their currency, and conscious of their current account deficit. The result has been a currency that is Asia's fourth-best performing one this year after the PHP, JPY and perennial top performer, THB - even despite the weakness of this month. We suspect that BI will want to see the US Fed cut again before they trim their own policy rates.

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