Opinion | 5 December 2019

Central banks holding back

After the Reserve Bank of Australia recently left rates unchanged, yesterday it was the turn of the Reserve Bank of India (RBI). We think the RBI definitely has more work to do, and the RBA probably does too

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There's no point denying we were a bit flummoxed by yesterday's "no change" decision by the RBI. Yes, inflation is rising, but that is largely a seasonal effect that will come and go. The deterioration of growth looks to have stronger underlying drivers, requiring further pushback by the authorities.

Markets responded with a stronger INR, but I wonder if that strength will hold. Yesterday's decision looks like one that will simply make the recovery of growth take longer, and as such, may require greater overall easing. I would think the more likely direction from here is for some depreciation.

Not one of the Bloomberg consensus expected "no change", and we don't think this is the last word on Indian easing. More looks likely next year. See the linked note by Prakash Sakpal for details. We think USDINR weakens to 73.0 by 1Q2020

Data not running the RBA's way

It wasn't a good day for RBA hawks either, with the retail sales number for October coming in at zero month on month. It was forecast to rise by 0.3%.

Following its "no change" decision this month, the RBA has tied the future direction of its monetary actions to household spending, of which retail sales are a sizable portion.

The recent GDP disappointment challenged Governor Philip Lowe's notion of "gentle upturn". Couple that with last month's poor labour market data, and the backdrop is looking quite challenged. About the only thing that will stop us from adding a couple of rate cuts from the RBA into our forecasts for next year, would be a recovery in the 19 December labour data. In the meantime, the AUD is likely to remain pressured.

Japan open's the spigot on fiscal spending

For some days, the news on Japan's fiscal stimulus has been churning, with the numbers getting bigger each time they are released. Japan was the first economy I ever covered in its entirety when I made the move to the dark-side from the UK Government Economic Service back in 1997, and if I learned anything in that time, it was this: Never change your forecast in the face of a Japanese stimulus package.

Why? Well if the government are throwing money at the economy, it usually means something is going wrong, and that means your original forecasts were too high. But the stimulus will largely offset that, leaving you roughly where you originally were.

Moreover, a fiscal stimulus isn't great news long term. As it shows that Abenomics is failing to make a meaningful difference to Japan's potential growth rates. It also means that the economy will be saddled with even more debt. But no one seems to care any more, and we suspect that ultimately, the portion of this debt that is held by the Bank of Japan, will be written off, in a sort of behind closed doors deficit monetisation.

China trade comments

Iris Pang in HK SAR picked up a few Chinese comments on the Trade War from spokespeople. "Spokesmen from China's ministries reiterated that a tariff roll-back is a necessary condition for any phase-1 deal and that tariffs will ultimately hurt the interests of US consumers. It is getting closer to the next tariff imposition date, 15th December, which schedule 10% tariffs on around $160 billion that are mostly consumer goods. The US needs to decide if it wants to give concessions to China on tariff rollback in exchange for China's purchase of US agricultural products".

OPEC decision still a bit murky

(Head of Commodities Strategy, Warren Patterson adds this on OPEC and oil): After a long day of meetings, it is still not 100% clear what OPEC+ have agreed to do, with OPEC deciding to skip the press conference, following closed-door meetings. Reports suggest that they will increase output cuts by 500Mbbls/d. However, it appears that this cut may just reflect formalisation of the over-compliance that we are already seeing from the group, rather than fresh cuts. Details should become clearer later today, with OPEC+ meetings set to get underway. The market so far seems somewhat unimpressed with the noise coming out of Vienna, with WTI trading somewhat lower this morning.

Impeachment proceedings coming

US speaker of the House of Representatives, Nancy Pelosi, has asked leaders of the House committees that have been looking into allegations of Presidential wrongdoing relating to Ukraine, to draft articles of impeachment.

I mention this today as I can't really ignore such a big news story. However, I'm torn as I don't really think this has any financial market implications. As I see it, and I'm no political expert, this has no chance of making it through the Senate. It may not even affect President Trump's opinion poll ratings, at least not in the way you might expect. This is great news for the news industry. But beyond that, I'm not so sure what material impact it has.

Market is calm...too calm

It all looks a bit too calm at the moment. Stocks rose yesterday - the absence of any bad news seemingly the catalyst, rather than any intrinsically good news. Tonight we get the US labour report. Following from the weak (+67K) ADP report earlier this week, there is some added risk of a disappointment here. The consensus payrolls expectation is +179K. Good luck and have a great weekend.

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