

Cut fever

A weak US ADP result has markets frothing at the mouth over the possibility of rate cuts



Source: Shutterstock

One snippet of weak data - several more strong

It's the big release of the month from the US tomorrow, the labour report, and that has markets fixated on all potential indicators for this market-moving data. Over many years, I have looked at this data closely. I have examined almost every available complimentary data source and examined them for their predictive power for the month-on-month non-farm payrolls series that forms the heart of the report.

What comes next may shock you.

1. The ADP is far and away the best predictor of non-farm payrolls, beating the employment indices of the ISM surveys (both strong incidentally), job vacancies, monster survey etc.
2. It is still rubbish

The labour report remains, despite the best efforts of economists, a virtually unpredictable survey, and until it comes out, the result will be in question, as will its implications for the Fed. Tomorrow will, therefore, be important. For more on this, [please see the labour market preview by James Smith](#).

Beige Book improves - yeah, whatever

The US Fed's Beige book, its interview-based assessment of the state of the economy, in contrast to the doom-and-gloom being peddled by the rate-cut soothsayers, showed an improvement in the economy overall, with the economy growing at a "moderate pace" up from "slight-to-moderate" pace the previous month. The outlook for employment was also described as similar to the previous period. No slowdown is evident here...

Yet it seems even sensible FOMC members are being carried along on the wave of self-fulfilling pessimism that is dominating markets, well, the bond market in particular, though I note this morning that bond yields are actually up since I was last in the office on Tuesday.

- Robert Kaplan: Wants to see evidence of slowing economic growth before deciding if an interest rate cut is necessary in response to the escalating dispute between the US and trading partners.
- Charles Evans: It would be prudent to take a look at the monetary policy setting. Would be open to considering a rate cut. Nervous about low inflation.
- Brainard: Need to be prepared to adjust policy to sustain growth.
- Richard Clarida: The Fed will deploy policies to deliver on the dual mandate.

And of course, earlier in the week, James Bullard suggested a rate cut may be warranted.

The USD continues to look weak, as a result, and as a corollary, Asian FX, like the KRW and TWD for example, looks stronger (the AUD has been flirting with 0.70). Firmer (higher) Treasury bond yields are probably a response to the equity market, for whom bad news = rate cuts = lower discount rate = higher NPV of future earnings = higher price.

Or "bad = good" in its reduced form.

"Not nearly enough"

"Not nearly enough" was Donald Trump's response to Mexico's diplomatic initiative to stave off tariffs. In case we lose sight of where we are in the rapidly globalizing trade war, this comes as a useful reminder. India, take note. India has hinted that it will be able to talk its way out of the preferential treatment on goods duties that the US has said it is stripping away from it. Looking at the Mexico situation, the cost of the plane tickets from New Delhi to DC for the Indian delegation might be better employed elsewhere.

Market pressure spreads

There are signs that the "global recession" anxiety is spreading across a wide swathe of markets now. Gold prices (fear factor) are up. Oil prices (crude glut) are down. Copper prices (the so-called "smart metal" due to its alleged cycle-predicting properties) is down. Now, these commodity prices may still be influenced by global risk sentiment like pure financial asset prices, but they ought also to shine a spotlight more closely on the real world. Their decline is somewhat concerning. Although I am dismissive of the recession argument, it can become self-fulfilling, and this is perhaps some evidence that it is becoming so. We need to keep watching stuff like this, as well as the US macro figures and Fed speakers.

Focus on the RBI today

(From Prakash Sakpal) In India, it's an RBI decision day. A dismal 4Q FY2018-19 GDP has swayed the consensus in favour of a 25bp rate cut. We are in the minority forecasting no policy change. This is partly a case of what we think the RBI should be doing, not what it necessarily will do. We believe two back-to-back-rate cuts in February and April combined with extremely loose fiscal policy is enough accommodation for an economy that still faces the danger of potential inflation spike from supply shocks to food and fuel prices. A cut today could take the INR past USDINR 70, and potentially lead to an awkward reversal later this year, earlier than the 2Q20 forecast we currently have penciled in.

Ending the long-standing political uncertainty, Thailand's new parliament has elected Prayuth Chan-Ocha as prime minister. Prayuth's Palang Pracharath party, which leads a 19-party coalition, still faces stiff opposition in the lower house. However, with a strong backing of the military-dominant Senate, Prayuth should be able to push ahead with his economic agenda of boosting infrastructure investment to revive the beleaguered economy. But this is something the economy would benefit from over a longer term. For now, the cyclical slowdown with intensified downside risks from the global trade war looks unavoidable. Besides a more accommodative fiscal policy, a reversal of a central bank's late-2018 policy rate hike should help to ease the short-term pain.

And in the G-7, the ECB meets today. [Carsten Brzeski has previewed the meeting here](#). With no rate movement at all likely, the main focus of the meeting will be new macro projections, including a likely lower inflation outlook, some more details on the TLTRO's slated for introduction in September, and probably little if any further reference to tiering, which probably will only resurface if further easing looks imminent.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com