

Eyes on Wyoming

Asia will be looking west today to see if there is any hint of the US Fed's new strategic vision and what that might mean for global markets



Come on Jerome, let's see what you've got

Asia will spend most of the day looking West to the US and the virtual conference at Jackson Hole, where Jerome Powell will be giving a speech (21:10 SGT). There is considerable speculation that this will provide a taster of the Fed's new strategic vision, which most pundits expect will be given its official unveiling at the September FOMC meeting.

And, if it goes the way most people are anticipating, with a move to allow inflation to overshoot the 2% target to achieve 2% on average, rather than as a spot target, then it would imply looser monetary policy and higher future inflation, higher longer-term bond yields, a slightly stronger USD and a steeper yield curve. That is basically the trade that most investors will be looking to score on today.

There are, however, a couple of little problems with this. How does the Fed get inflation higher? And how does it make policy even more accommodative?

These are not minor inconveniences. The entire credibility of such a strategy rests on the Fed being able to convince markets that these goals are achievable. Otherwise, they have no more value

than the BoJ's switch in January 2013 to a 2% inflation target from their previous target of 1%. Indeed, it runs the risk of simply drawing attention to how much inflation targets are being missed - more a credibility damaging shift, than a credibility enhancing one.

So, the market will no doubt respond in the predicted way to any such announcements today, but for this to stick, I think we are going to need to hear much more than a simple change in ambition.

Day ahead

On what is going to be a fairly quiet day otherwise for economic interest, spare a second to look at the second release of US GDP. I'm not all that interested in the headline figures, but this release should also contain the breakdown of corporate profits by domestic non-financial US firms - a good yardstick for reported earnings in the United States. These profits figures will provide some insight into just how much of a beating US profits are actually taking. Will it be enough to dent positive stock sentiment? I doubt it, especially on a day like today when markets are looking for supportive Fed comments. But it will make my growing unease about where risk assets are heading even stronger.

While we consider central bank meetings, we might give two seconds thought to the Bank of Korea today, though there is unanimity amongst the forecasting community that there will be no change in policy from them. Any shift would be a major surprise.

We get China's industrial profits data for July later this morning too. The June figure showed an 11.5%YoY increase. There is no consensus estimate for today's number, but we would not be surprised to see less favourable base effects bring the number down to something closer to 7%YoY, without implying any underlying weakening in the underlying corporate profit trend.

Nicky Mapa also notes on yesterday's budget deficit release from the Philippines: "The budget deficit hit Php140.2 bn for July as revenue collection remained strained due to slowing economic activity. Year-to-date, the budget deficit swelled to Php700.6 bn, equivalent to 3.7% of GDP with revenues 6.8% lower, while spending rose 23.8% due to stimulus spending for Covid-19. Department of Finance Secretary Dominguez had previously noted a possible blow-up of the budget deficit to 9%, one reason why stimulus efforts were toned down in 2H. Dominguez also announced a Php3.025 trillion borrowing plan for 2021 with domestic bond issuances upsized by 16% from the 2020 level which may cause local bond yields to trend higher on anticipation of increased bond issuances next year".

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