Fed calms nerves with dovish-hike comments

The EM world is a little calmer today after the Fed minutes signaled no inclination to accelerate the pace of tightening.

Source: Federal Reserve

Fed minutes spread a little calm

OK, the Fed are going to hike in June - but we knew that. The relevant text from the latest FOMC minutes says, "...it would likely **soon** (our emphasis) be appropriate for the Committee to take another step in removing policy accommodation". Having dealt with that, let's quickly pass onto the more interesting question of "What then?". Here, the minutes from the last FOMC meeting note that on inflation, "...many participants emphasized that, after an extended period of low inflation, the Committee's longer-run policy objective was to return inflation to its symmetric 2 percent goal on a sustained basis". And also "It was also noted that a temporary period of inflation modestly above 2 percent would be consistent with the Committee's symmetric inflation objective and could be **helpful** (again, our emphasis) in anchoring longer-run inflation expectations at a level consistent with that objective". Which in plain English seems to say that as inflation has undershot its target for so long and depressed inflation expectations, a bit of above-target inflation would not warrant any change from the gradual tightening the Fed has been pursuing.

One interesting side observation was that the unsettled trade and tariff backdrop was having a real impact on investment decisions. The message for Trump on this is, make your mind up. We got a further Presidential vacillation on the trade story today, with news that Trump has maybe not let China off the hook after all, and wants to firm up the framework for talks, saying in a tweet that the current proposal "...will be too hard to get done and to verify results after completion". The tweet coincided with the cancellation of Wilbur Ross' appearance at a trade event. If nothing else, this back and forth is making it very hard for economists to put presentations together on trade, though the latest move takes a presentation I have to do tomorrow and which had been overtaken by events, back into synch again. Thanks Mr. President.

Automakers in Asia and Europe won't be thanking the President though, as he announced that he is looking into tariffs on imported cars. This is beginning to read like Dr Jekyll and Mr Hyde.

Day ahead - BoK to leave rates on hold - we have pushed our rate hike forecast back

The main event in Asia-Pacific today is the BoK meeting. No change to policy is expected here (7-day repo rate = 1.5%), but the tone from officials has turned decidedly dovish in recent weeks. BoK Governor Lee remarked on May 17 in a comment published on Bloomberg May 17 that it was "...difficult to remain optimistic about the South Korean economy considering various uncertainties, even though the economy has continued relatively steady growth since last year". Sub-target inflation, reports of softening consumer spending and anemic industrial production add to the sense that policy is unlikely to change imminently. And the KRW is holding its ground despite the Fed's relentless upwards march with rates.

We have pushed our rate hike forecast back from 3Q18 to 4Q18, but are wondering if the BoK will find conditions warrant any hike at all possible this year this year and have this forecast under continuous review for a further nudge backward.

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