

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.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the

Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.