

Fed's Powell delivers "hawkish cut"

Dollar rallies, the curve flattens, stocks sell. There's more coming, but not much, so don't hold your breath.



Source: Shutterstock

2.0-2.25%

As expected

New Fed funds range

Down 25bp

Powell does what he needed to do...

Before you read my brief and personal thoughts on last night's Fed move, [here is the more detailed and insightful official house view from James Knightley](#).

It may not have pleased the US President, he has been tweeting again, but I think Jerome Powell can regard last night's Fed decision as good progress towards the goal of stabilizing the US expansion, whilst at the same time, not goading markets into pricing even more easing in. Lessons learned from the RBA's recent similar performance, possibly?

What we have seen with the Fed's 25bp rate cut, taking the target range down to 2.0-2.25%, and

the cessation of balance sheet roll-off - as of today - is a slight repricing at the front end of the curve, and a bit more rallying by the back end - probably an equity market spillover as stocks have taken umbrage at the lack of promise of a string of easing.

Fed funds futures now price an implied yield of 1.47% in December 2020, and 1.83% in December 2019. That is up from two days ago when the respective yields were 1.40 and 1.785%. These aren't big moves, but there is likely more of this to come as the message that all that may be coming is another 25bp, and perhaps not immediately, starts to sink in.

The dissension by two voters, Esther George and Eric Rosengren, underlines the fact that as rate easing goes, this is likely to be more "nouvelle cuisine" than "all you can eat".

For the [Fed's statement](#) and the [following Q&A](#), please click the links.

End of quantitative twaddle

Now for the ranty bit.

The Fed will, as of today, stop allowing maturing assets on their balance sheet to roll-off, and will instead, re-invest their proceeds. This is happening about two months earlier than originally planned, as the original plan was to end this at the end of September. This is not a big deal.

The end of quantitative tightening? Don't make me laugh. It was never any such thing. If it had been, then we would have seen 10Y Treasury yields at uncomfortable highs, not struggling to stay above 2.0%. The latter stages of QE in the aftermath of the financial crisis had arguably no meaningful effects on either asset prices, expectations or the real economy (NB I do not write off the earlier actions, which were a useful firebreak).

It makes no sense at all to assume that simply allowing these bonds to mature, would do anything meaningful in the opposite direction. The later stages of the asset accumulation by the Fed did little if anything on active buying policy the way up. We should not imagine it would do anything as their asset holdings make their way passively down again (and a lot more sedately than on the way up).

It's not like the Fed has been aggressively selling down its balance sheet. The term "quantitative tightening" is a horrible misnomer and should be immediately and forevermore consigned to the lexicographer's trash can.

End of ranty bit.

Asia's response

Asian stock futures are mainly showing red today, currencies are more of a mixed bag, with the SGD and AUD looking particularly soft against USD strength, whilst the higher yielders don't seem to have responded as much. The THB is also showing uncharacteristic signs of weakness, perhaps reflecting the recent manufacturing weakness and surging balance of payments, reflecting the

lopsided domestic / export balance of the economy, and likely further weak inflation today.

Like the BoK, another reluctant easer, the Fed's actions make some easing from the Bank of Thailand look all the more probable, and in our view, rate cuts can come as early as this month. We still see scope for an early move from the Monetary Authority of Singapore, perhaps softening markets up for a further move in October. And of course, we anticipate more from the BoK, and respective central banks in Indonesia and the Philippines may not be far behind.

So in the absence of much good news flying around currently, I would put the Fed's overnight cut and subsequent likely further modest easing into the basket of "welcome market developments". The US economy remains in decent shape, the Fed's easing now and later makes the continuation of that positive story more probable. So rather than sell-off in disappointment at the absence of a big easing cycle (which would probably mean a recession was on its way), as some markets are doing, this is a story that should make you want to be longer positioned in risk assets. A buying opportunity?

Trade talks end after half a day

It was barely worth the flight from Washington to Shanghai. Trade talks between the US' Robert Lighthizer, Steven Mnuchin and China's Vice Premier, Liu He, ended yesterday and will not resume now until September.

Chinese officials have described the pressure from the White House in advance of these talks as "meaningless". Though the White House later described the meetings as "constructive".

The issues, that are making these trade talks hard to conclude are not likely to be any less difficult in September. We are not holding out much hope of a breakthrough then either.

More inflation data ahead

As well as Thai inflation later today, we have already had Korean inflation for July, which has delivered a disappointing 0.6%YoY reading, down from 0.7% in June. The core reading was a bit better. But this data still adds to the sense that the BoK has more easing work to do. As does the export data also just out today. July exports fell a further 11.0%YoY, with semiconductors falling 28.1%YoY.

If you want to make a good news story out of this, it is that in levels terms, it looks as if semiconductor exports troughed in February of this year. But their passage since then has been pretty flat. I do not believe we can yet point to any sort of cyclical, or even just seasonal upswing. But the end of the decline is at least something to cling onto.

PMI data dominates the rest of the day here in Asia, with the Chinese Caixin survey worth a good look after yesterday's unexceptional official numbers.

Author

Olivia Grace

Editor

olivia.grace@ing.com

Julian Geib

Junior Economist, Global Trade

julian.geib@ing.de

Zoltán Homolya

Economic research trainee

zoltan.homolya@ing.com

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebre

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@ing.com

Michiel Tukker

Senior UK & Eurozone 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

Senior Economist, Healthcare & Technology

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@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

Deputy Global Head of Editorial 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

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 Corporate 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

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@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, 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