

## Feed me!

Markets respond to the Fed with a shrug, but Powell is right, the Fed can't generate demand



feed me

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## Give me more!

Let me start today by providing [a link to the Fed piece by James Knightley overnight](#), with the additional support of our global heads of rates strategy and FX.

OK, with those niceties out of the way - what did the market think? In short, it was a cry for MORE!!!!

Equities sold off a bit, despite the Fed's pledge to keep rates lower for longer. Bond markets did very little, with a hint of a sell-off taking yields at the back-end higher for a fractionally steeper curve. The dollar actually made some gains, especially against the EUR, and it remains to be seen if Asian FX will follow suit today after its recent gains against the USD - CNH and KRW in particular.

I've made a great deal over recent weeks of the irrelevance of forward-guidance when the market itself is pricing in nothing for years, and of the lack of credibility of time-dependent forward guidance vs state-contingent forward guidance. Powell gave us both last night. That doesn't make it more potent, but perhaps doubly-irrelevant.

But they are trying, and I thought one of the points that JK's note highlighted, was Powell stressing

that the Fed can't create demand. That, I would say, while a departure from the textbook assumptions of monetary demand management, is true today, with rates at these levels. And it is down to Congress to supply more support if the 2021 GDP numbers are not to disappoint. The commentator I read on one of the newswires this morning who thought that the markets' negative reaction to the meeting reflected Powell's statement of the obvious on Congressional support, might ask themselves if they ought to reconsider their media role.

So, markets always want more. They are like that carnivorous plant in the Little Shop of Horrors. But, should you keep feeding them? I think you know what my answer to that is. And while risk assets might love the intravenous drip of monetary stimulus, it is time to focus on policies that the real economy needs, and for that, Powell is dead right, its time for Congress to step up to the plate. Perhaps the market reaction here is more a realization of this and the fact that any resolution to the current impasse is unlikely until the Presidential election outcome is determined. That said, there is a story on the latest edition of the online FT that President Trump is trying to get the Republican Party to improve its offer, so maybe there is still some hope...

## Australian labour data way better than expected

Australian employment data for August just out was way better than the market had expected. The consensus was for a decline of 35K jobs. We were on the other side of that call with a forecast of +33K jobs, but as a cherry on the cake of their One Day International series cricket victory over England last night (begrudging congratulations offered), total employment gained 111K, with gains in both full-time (+36.2K) and part-time (74.8K) jobs. This took the unemployment rate down to 6.8% from 7.5%. More gains in the current month seem probable, which should provide the AUD with some further support.

Talking of surprises, we were taken aback at the scale of the NZ 2Q GDP decline, which came in at -12.2QoQ, one of the sharpest falls in developed markets, and even in Asia-Pacific more generally. We will, as a result, have to do some heavy pruning to our full-year GDP forecast, but for a holding forecast, the new number is -5.5% for 2020, versus -4.2% previously.

## Elsewhere in Asia

Singapore's Non-oil domestic exports (NODX) for August beat market expectations with a 5.7%YoY increase in August. There were no big sensations in the data, but most components, including the important electronic, pharmaceutical, and petrochemical sectors posted gains from the previous month, which is probably a more solid, if not spectacular improvement than had been anticipated.

For central bank interest, we have both Bank Indonesia and Taiwan's central bank meeting later today. We don't anticipate any monetary policy changes at either. In particular, with the IDR under some scrutiny given BI's burden-sharing arrangements with the Indonesian government, they are playing more of a fiscal than a monetary role these days. And CBC almost never changes policy, and we see no reason for them to buck that trend today.

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