

Fussing about the edges

GBP rises on May cabinet support, but the real battle is ahead. European data generally poor - ECB plans questionable. US core inflation falls, should have been better news for risk assets. ASEAN central banks toy with rate hikes...why? All this and more...



Theresa May, UK Prime Minister

Source: Shutterstock

But first, your daily Brexit update...

I can do no better this morning than steer you to [this article by Chris Turner and James Smith on Brexit and the pound](#) published overnight. All I would add is that when I came into work this morning, having read on my phone that overnight, UK cabinet "approval" for the draft Brexit deal had been achieved, (grudging acquiescence would be a better way to put it), sterling might have been a little stronger than it was. With cable still under 1.30 and EURGBP a shade over 0.87, this is a miniscule recovery.

This might tell you that the market remains unconvinced that this draft will pass UK Parliament. I share their misgivings. According to Turner and Smith, a vote on this could happen in mid-December, before Parliament breaks for Christmas. That means lots more jawboning to push sterling around in the meantime. Our house view remains that deal gets done, but reading between the lines, our conviction on this call is very low. More of a wish than a forecast perhaps?

A bad day for the hawks in Europe

For the ECB, which famously never "pre-commits", the policy path has been fairly clearly mapped out over the next 15 months, with an end to quantitative easing (QE) and then eventual restoration of negative deposit rates to zero by end 2019.

So it must be somewhat awkward when the bloc's largest economy, Germany, posts a 0.2% GDP contraction in the third quarter. Sure, [as Carsten Brzeski points out](#), there were some one-offs and other aberrations, but when aren't there? And it wasn't just Germany. The Eurozone as a whole also grew only a [dismal \(as Bert Colijn puts it\) 0.2% QoQ](#) in 3Q18.

And still, the EUR managed to claw back a little ground from the USD, which just goes to show that the competition amongst the majors for the bottom spot is currently very strong.

Fed Chair Powell - balanced view, December still on

Not that anyone is seriously questioning the December Fed hike, but let's get that out of the way first. Nothing Powell said yesterday indicates that the Fed will not hike again in December. Now with that out of the way, his comments (given in a discussion with Robert Kaplan at the Dallas Fed) suggest the following:

1. Powell is very happy with the real economy
2. The Fed is trying to balance the pace of tightening to avoid policy errors in both directions.
3. Powell is concerned about slowing global growth (see earlier comments about Europe, though also note Japan also contracted in 3Q18)
4. He is mainly focussed on the real economy but is not ignoring financial conditions (for which, read the stock market)
5. The trade dispute may push up inflation

In the background yesterday, headline US October CPI inflation rose to 2.5%YoY, but the core rate, which is possibly more important to the Fed than the headline (though headline is their actual target measure) fell back a little to 2.1%.

For those who have been worrying about a slowdown in US growth in 2019 coupled with a lagged rise in inflation, creating a toxic stagflationary backdrop for risk assets, this should have been some relief. It reduces the chances that the Fed has to accelerate its tightening. Equities fell anyway, as the tech market suffered further losses as smartphone component suppliers provided further fuel for selling, even as crude oil managed to stabilize for a day, helping the energy companies.

ASEAN Central bank action today - Thailand yesterday was a clue

With central banks for Indonesia (BI) and the Philippines (BSP) meeting today, what can we expect? Well if yesterday's Bank of Thailand meeting is any guide, then at the least, some hawkishness, and possibly even a hike. Our house call is no change from either bank, but Bank of Thailand yesterday voted by 4:3 to leave rates unchanged, saying that the time for extremely low policy rates was nearing an end, signaling very clearly their intention to hike next month. That seems at odds with the slowdown in GDP growth we saw in 3Q18 and weakness in manufacturing, and tourism inflows, but that is the message they are sending.

And it could be similar for BSP today (less so BI) even if they don't hike, with a clear message to markets that further tightening is on its way. Consensus actually is now positioned for a hike from BSP. Our Manila team are in the minority looking for no change today.

Following oil's recent plunge, and the likely improvement in both current accounts and inflation positions, coupled with some recovery in exchange rates, I find it hard to summon up much enthusiasm for this policy stance, which seems to be predicated on the notion of hiking rates "because you can" not because you "should". Creating room for future easing is another argument, which I find baffling. It's probably a good thing I don't work for a central bank. I clearly lack the mindset.

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