

Good MornING Asia - 1 February 2018

As FOMC Chair, Janet Yellen, packs up her desk and hands over to Jerome Powell, she indicates that US rates will keep rising.



Bye Bye Janet

There was a fairly widespread view that the statement of Janet Yellen's last Federal Open Market Committee would be hawkish, and this is how it is being reported in the media. And indeed, there are three separate references to "further" or "future" rate hikes (see below)

1. The Committee expects that, with **further** gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market conditions will remain strong.
2. In determining the timing and size of **future** adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to

its objectives of maximum employment and 2 percent inflation.

3. The Committee expects that economic conditions will evolve in a manner that will warrant **further** gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run.

That's quite a lot to pack into a page of text and leaves us fairly clear, that absent a disaster (big stock market collapse, say) the March FOMC meeting under new Fed Chair, Jerome Powell will deliver a "further" 25bp rate hike.

For an incoming Fed chair, stamping your mark on the first meeting with a hike is a good way to signal to the market that you are no dove (even if you are), and will help avoid a more lengthy period of reputation building. So in this respect, Yellen's parting gift to Powell was to do nothing to rates in January but tee up a hike for March.

Whilst others are hesitating to go on record on Yellen's legacy as Fed chair, I will not hesitate to opine that in my view, she has run a very steady ship, and has limited (not eliminated) the risk of future financial crises stemming from the US. I could not make the same comments about the ECB in recent years. Another Fed chair, whose reputation has somehow largely survived the financial crisis, Alan Greenspan, is on record today as saying that stock markets and the bond market are bubbles. Well if they are, then the bond market at least is doing its best to deflate. And we are not sure why he is able to draw this conclusion now when he wasn't able to as Fed chair in the years leading up to the crisis.

1.0%YoY

Korean Jan 18 Core inflation

Down from 1.5% in Dec 17

Worse than expected

Korean inflation disappoints

Korean inflation fell further in January. Both the headline and core rates of inflation fell from 1.5%YoY in December to 1.1% and 1.0% respectively. We have been giving Korea's economy the benefit of the doubt, against a litany of soft activity and price data, and some recent disappointments too in the trade figures. But it is no longer possible to leave our BoK forecast unchanged, and we are pushing out the two rate hikes we had in place for this year, and now look for only one, and then not until 4Q18.

Korean trade data also out today do look a touch better, with the export growth rate pushing back up to 22.2%, from December's 8.9% dip. But in dollar terms, this was only a \$145m increase on a \$49,210m total (0.3%MoM), so at an annualized rate, we are really looking at low single-digit growth rates. Today's growth headline was all about base effects. The import growth of 20.9%YoY had a little more substance to it, rising almost \$2bn over the prior month, and could reflect a shift in Korea's economy towards consumer spending, which would be no bad thing given the parlous outlook for net exports.

Business sentiment dominates Asian Calendar

PMI data dominates the Asian calendar today. There is no consensus on the numbers, but on aggregate, a slight pull-back in headline indices though remaining at levels consistent with decent growth would seem a fair representation of what we are seeing in Asia right now.

Post FOMC and Pre-Payrolls

In the day-long gap between the FOMC and January's payrolls figures, it is quiet in the G-7. Overnight news was the passage of the first reading of the Brexit bill in the UK House of Lords, which was not a certain result. But the next stage will involve laborious line by line changes, so this is not finished work yet. Meanwhile, PM Theresa May seems to be getting into hot water over the treatment of EU citizens who come to the UK after March 2019, but before any transition period ends. The EU wants them to be treated the same way as EU nationals arriving before the UK leaves the EU. May thinks this is unfair, which in my view it is, but she hasn't really got any cards to play, and I suspect that what the EU wants, ultimately, the EU will get.

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