

Keep calm, nothing to see here

The Fed's Powell has again been pouring oil on troubled markets and making some very sensible distinctions between price level rises and inflation. But the Fed still has communication issues over its future policies which could emerge as a tantrum some way down the line, and we steer you in the direction of our cross-asset tantrum note as essential reading today



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Tantrum - all you need to know

As regular readers will know, I've written a lot about central bank communications policies (and how messed up they are), and in particular, the risk of a taper tantrum stemming from the "Nothing to see here!" approach too often taken by the US Federal Reserve.

My colleagues have written a great cross-asset note on this, which you can access with [this link](#) and it looks at bond markets, credit, and FX in Developed and Emerging Markets. Well worth a read.

And indeed, Powell was doing his best to stem the tide of bond bearishness again yesterday, repeating much of the sentiment of the prior day though also making some very sensible distinctions between rising price levels due to things like semiconductor shortages, and embedded

inflation ([here's a link to the official speech](#)). We are pleased about that distinction because it is a misunderstanding that we come across often in our conversations with clients.

Price level shifts can temporarily push up measured inflation, but they are not a problem that any central bank ought to automatically fight. This may buy the Fed a couple of days of calm, though the spoilt child analogy of the tantrum note is an appropriate one for markets, and it probably won't be too long before the Treasury bond market recommences "throwing its toys out of the pram". Incidentally, it may be unhelpful of Powell to keep insisting that the Fed has the tools to deal with the sort of price level effects he mentions. They don't need "dealing with", they just need to be downplayed.

Mainly good news on the Pandemic

There are admittedly still some dark spots on the map when it comes to the Covid-19 Pandemic. Central and Eastern Europe seem to be struggling with the UK variant as it becomes their dominant strain, and the historic French town of Dunkirk, amongst certain other hotspots, finds itself under siege once more, this time as increased movement restrictions are imposed to try to combat rising cases as France's national daily case numbers remain stubbornly high.

But elsewhere, the news is more encouraging. Reports suggest that the Johnson and Johnson vaccine has obtained regulatory approval in the US and that should speed up vaccine rollout there (requires only one jab...). And data from Israel, where more than 80% of the population have been vaccinated with the Pfizer vaccine, indicate that it is so effective, if broadly rolled out, it could end the pandemic - also providing a big reduction in transmissibility of the virus from those who are asymptomatic. And lastly, Moderna is reporting work into boosters to their vaccine to improve its effectiveness against the South African strain, which shows some resistance to the current batch of vaccines, and also work on a combined vaccine to deliver broader variant immunity.

Markets a bit more chipper

A combination of a dovish Powell (bolstered by Richard Clarida and Lael Brainard yesterday), plus some broadly positive Covid news will have helped the return of confidence to risk assets, even as US 10Y Treasury yields managed to move up a bit more than 3bp over the last 24 hour period. 10Y UST yields now stand at 1.3890, though are already nosing higher in early Asian trading. That won't help the positive risk sentiment persist.

Asian FX has been bounced around by the US dollar's erratic performance lately, and we have seen extremes, with the AUD powering ahead on renewed global growth confidence and tracking commodity prices like copper higher, and the JPY, which has softened as safe-haven flows have reversed.

The CNH has made some further gains, though it has been choppy progress, and the INR has benefitted by renewed assurances from the RBI's Governor, Shaktikanta Das, that they will continue to supply ample liquidity to the banking system, helping suck in capital flows to the Indian bond market and propping up the INR.

Taiwan production the main feature on the calendar

It's fairly quiet in terms of data releases today, though we do have some Taiwanese industrial production data for January this afternoon, and Iris Pang in HK writes "We expect a jump from

9.9%YoY to 12%YoY. The consensus is for a rise of around 20%. The direction is clearly very positive, but the extent of the gains will depend on 1) whether Taiwan can have pumped out so many more semiconductor chips in January and; 2) the shipment urgency before the Chinese New Year.

The market impact should be on TWD, we expect USDTWD to continue to fall. Our forecast is 27.5 by end of 1Q21".

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