

Opinion | 29 July 2021

Powell changes Fed stance one word at a time

US Federal Reserve Chair, Jay Powell, says the US has made progress, but not "substantial further progress" towards attaining the goals that will allow for a taper. But he expects to discuss that progress further over coming meetings - so more than one meeting, two then? That basically takes us to December. Just as the market was expecting.



Fed Chair, Jerome Powell

ING's Chief US Economist still eyeing rate hikes in 2022

So [let's start with a link to the FOMC meeting](#), note that James Knightley wrote last night, helped by our rates and FX teams.

I won't paraphrase it here, as you might then not read it, and it is well worth the two or three minutes it will take of your day to do so. But there were further glacial shifts in the Fed's rhetoric that suggest we are inching fractionally closer to an announcement on the taper.

This sort of "Kremlin watching" gets a lot of scorn, and possibly rightly so. And all of what Powell told us last night we could have figured out without any comments at all from the Fed Chair, but it does seem that we take the word of Central Bank speakers terribly literally, even though:

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1. We know that sometimes they tell us things just to achieve a certain economic or market outcome and
2. Their forecasting track record is usually worse than that of the market consensus

With the next FOMC meeting on 23 September, then one on 4 November, that should provide the Fed with the information it needs to make an announcement on 16 Dec, and start tapering in January 2022. That's our house view, and it is increasingly the market view. We remain more aggressive on rate hikes, but we'll leave that discussion for another day (see also JK et al note from last night). Let's get the taper out of the way first.

Last night's remarks that progress had been made (though not, notably, sufficient progress to enable the taper to start) could have been deduced by anybody who could read a newspaper. So it is perhaps not surprising that bond markets didn't do a lot on the news. Currency markets were perhaps a bit more reactive, with the USD selling off against the EUR, which pushed further above 1.18, possibly unwinding bets that the tone might have been a bit more hawkish than in fact it was.

Asian currencies were broadly positive against the USD yesterday, and we would expect that to continue during early trading this morning. The main exception to that rule was the KRW, which gapped higher on opening yesterday, tried to go higher still. Failed. And ended up roughly where it had closed 2 days previously. The CNH reversed some earlier losses, possibly following a call by Chinese Authorities to foreign banks to clarify their recent actions against some education firms - noting that this was targeted reform and did not imply a wider crackdown. Tech stocks in the US finished higher on the day and that has set the tone for today's early trading with Asian equity futures mostly suggesting a positive start to the day.

Normally, the day following an FOMC meeting is terribly dull. And indeed, there is almost nothing on the calendar in Asia today of note. But later on, we do get advance 2Q 21 GDP from the US, with the market looking for a gain of 8.5% on the previous quarter (not too shabby), and our house view courtesy of JK expects it to be higher still (ING f 9.5%QoQ).

We've also had some indication that Biden's (now only) \$550bn infrastructure bill has enough support in the Senate to start moving towards the lawbooks, though this will likely take some weeks to actually get done. Still, in normal times, this would have been worth 5-10bp on the US 10Y Treasury yield. Yesterday, despite the Fed and this progress, UST10 yields were basically unchanged, declining less than a basis point to about 1.233%. Strange markets. Even Powell admitted he didn't understand them when questioned yesterday. If he can't, what hope have the rest of us?

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