27 February 2018
Opinion

Powell - plenty to mull

As well as being generally upbeat, Fed Chairman Powell's speech adds a few new elements to Fed thinking

Powell- it's the little things...

I have to admit that my prior expectation was that Powell's speech would be as dull as most such speeches are. But markets certainly found it interesting enough. US bond yields rose, more at the back end than at the front. Nonetheless, markets have taken on board Powell's generally upbeat view on the US economy, and have moved expectations to fully price in three hikes this year (we think 4, and this would be more in line with Powell's remarks) and a further 2 hikes in 2019 (we are again more aggresisve - looking for Fed funds to end 2019 at 3.0%, not the 2.5% implied by market pricing).

Of the other things we note from Powell's speech, one is an explicit recognition that fiscal policy is now providing a firm push to the economy. As such, this will allow the Fed to lean gently back against it in the opposite direction. The other point was a fairly blunt remark about the merits of policy rules for monetary setting. This was part of the debate prior to Powell's appointment. Indeed, John Taylor - he of the eponymous "Taylor rule", was a front-runner for Powell's job at one stage. So do we need to start dusting off some of these rules? With economic and monetary conditions beginning to normalise, that might not be such a bad idea.

Dollar following rates again - is this a trend?

One other observation about last night's speech by the new Fed chair is that the USD seems to be following yields again. Stocks sold off as bond yields rose, but the dollar firmed against the EUR. Asian FX also seems to be starting the day on the back foot, with the exception of the KRW. THis despite yesterday's BoK speech, where the outgoing Governor noted that the BoK would not follow the Fed hike-for-hike (did anyone really think that likely?). Strong Korean business surveys out early this morning may be helping the KRW.

The region's deficit currencies, (PHP, INR, IDR) look to be amongst the weakest today, though the SGD has also lost a fair bit of ground against the USD, after gaining on production data in recent days and increased thoughts of an April MAS tightening.

Day ahead...

Japan has already kicked off the G-7 calendar for today with retail sales figures, which were poor, as were their industrial produciton figures for January. Alarmingly, electronics production, the mainstay of many Asian economies 2017 economic strength, were one of the main reasons for weakness of both production and shipments. The potential for a turn in the electronics / communications product-cycle bears very close watching in coming data across the region. Besides that, it is a relatively uneventful day, with February Eurozone CPI probably the main G-7 pick, and likely to dip to 1.2%YoY from 1.3% in January following a downside miss by Germany yesterday. This doesn't help the ECB to smoothly exit its current QE programme, and this too could be weighing on the EUR currently.

In non-Japan Asia, Hong Kong will be announcing what they will do with their massive fiscal surplus. China PMIs will be largely ignored given the influence of the New Year on the figures, Thai trade data is not hugely informative, given their huge trade surplus (the THB is strong, but none of this helps a beleagured domestic economy). Indian 4Q17 GDP data should paint a better picture following the ravages of demonetisation and GST on activity earlier in the year. Consensus expects a 7.0% YoY growth rate for the fourth quarter.

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