

## Powell put postponed?

Asian markets liked the sound of a Fed rate cut, a weaker USD and room for their own central banks to ease rates and support growth - now they are worrying he won't deliver.



How far will Fed Chair, Jerome Powell, push back market expectations?

### A stitch in time...

The first of two days of testimony to the US Congress from Fed Chairman Powell tomorrow could deliver what Asian markets want to hear - the sound of imminent easing - or alternatively, the threat of rates on hold. Currencies and stock markets are reflecting that unease today. I used to go to the IDR, INR and PHP as my bellwethers for market risk sentiment in Asia. I now go straight to the KRW and cross-check it against the TWD. The message today is an unequivocal "risk off".

Indeed, the KRW is such a sensitive indicator these days, that over the last twenty or so days, it has shifted from about 1196, threatening to break 1200, to under 1150, looking poised for a move to 1140, and is now back at 1181. In the process, it has undershot, and then overshot our end 2Q USDKRW forecast of 1180 by a mile, though it looks to have hit it on average. That's no consolation...but it reminds me of the joke of the three economists who go hunting...(perhaps I'll save this for another day though drop me a line if you haven't heard it).

There isn't a lot today that could impinge on the argument for or against easing, though I'd be tempted to take a close look at the small firm US NFIB survey. From red, if not white hot readings of labour tightness in recent months, the employment component of this for June, that is released

before the rest of the survey, dipped back a little, with jobs hard-to-fill and compensation gauges both moving back a little. Take a look too at JOLTS job openings, for another snapshot of the labour market that may not be captured in the main labour report.

But even if this data stays robust or even strengthens, I think the "worry-ists" about the Fed are misinterpreting what Powell has been hinting at doing. Powell is offering to provide an "insurance cut", or maybe two. Think about insurance for a minute. You don't take it out because you think your house will catch fire. But because you hope it won't, but don't want to be caught out if it does. ([See also our monthly central Bank Watch on this](#)).

Powell need not think the economy is heading into recession to deliver 25bp or even eventually 50bp of insurance easing, but he believes that easing in this way will keep the US economy on its current growth path.

Therefore, it makes no sense for Powell to wait until September to provide such insurance, as this is not a data dependent decision, but a risk-management one. By September, there may be other arguments for some easing. But as Powell says, an "...ounce of prevention is worth more than a pound of cure...", or something like that anyway. I might also add, "A stitch in time saves nine", though that may just be too esoteric.

Powell speaks today - but not on monetary policy. No Q&A, we have to wait this one out.

## **BNM - nothing today**

One central bank that is probably not waiting on the Fed and Powell is Bank Negara Malaysia (BNM), who we expect to stay on hold today. As our Prakash Sakpal writes: "BNM announces its monetary policy decision at 3 pm local time today. We are part of a solid consensus forecasting no change to policy rates. In a pre-emptive move at the last meeting in May, BNM cut its policy rate by 25bp to 3.00%. And it has also just eased guidelines for bank lending to SMEs. The economy is holding up well, and growth likely picked up in 2Q from 4.5% in 1Q. Inflation also continues to be negligible, allowing plenty of space for more easing if required though we believe BNM will save this space for the future".

## **Other Asia data today**

Japan's labour cash earnings for May were -0.2%YoY. This series is barely worth watching right now as [the sampling methodology has been extensively modified to better reflect the prevalence of lower paying small firms in the economy](#). Consequently, year on year comparisons are garbage. It's better that we ignore this for another year until we have a series that makes sense. Though this is a pity as it was one of the more helpful pieces of data for forecasting the Japanese economy.

Note also the World Bank has just warned of potential political risk on Thailand, which could threaten currently strong markets. For a more detailed discussion of that issue, please check out [Prakash's note that went out yesterday](#).

China's money supply is the other possible release today, with many recent easing measures undertaken subsequent to these June data, we probably can't read too much into this release, whenever it emerges this week.

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