

## Pre-payrolls pause

It's almost impossible to predict, it's almost impossible to map an outcome onto markets. Happy Payrolls Day!



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### We don't know what it will do, we don't know what it means - take that to the bank!

When I used to cover the US economy and markets before my focus switched to Asia, I had the very dubious privilege of having to forecast non-farm payrolls each month. Added to previous jobs where I have also covered US macro data, I have about 20 years of experience forecasting this data and that time has taught me...**absolutely nothing**.

Nothing very useful anyway. I know that on a month-by-month basis, there is literally no explanatory power in the employment indices of either of the ISM surveys. I know that initial and continued claims numbers are useful only over a three month period if at all and that the "jobs hard to get/jobs plentiful" diffusion indices in the Conference Board consumer confidence index is only helpful at extremes, and often not even then.

In the end, the only vaguely helpful indicator is the ADP survey, and it is very, very unreliable. A story I read this morning was extolling its virtues saying that it was rarely off by more than half a million jobs. But when that is more than the average monthly payrolls change, that's almost like saying it can give a steer to the sign on the number, but not much more. And that, I'm afraid, is

about right.

So if we don't know what the number will do, can we at least say how markets might react in the event of a high/low number?

Well, normally, I'd have a stab at this, but right now markets seem torn between concern that stronger/weaker data will push the Fed to do more/less, earlier/later, and that this will curtail/prolong the period of peak growth.

What this means is that you have a tug of war between the inflation expectations component of the nominal bond yield and the real yield component. These would normally push in the same direction. But these days, that is not the case. So if we can't tell which way bonds will go, then we don't really have much insight into the direction of FX. And as for equity markets - they are a law unto themselves and will probably rise whatever happens - right up to the point where they realize that this is wrong, and then will then plunge for no obvious reason.

So my advice? Have a lazy Friday. Don't bet the farm on non-farm payrolls. Instead, read about it in tomorrow's FT, or your favourite business newspaper. There will be sure to be some surprises in it. And we can work out what it means for global and Asian markets in time for Monday (Tuesday for those in Singapore who have a long weekend).

## Here's another central bank that thinks its "not all transitory"

[I'm providing a link to a note on the Bank of England](#) by my excellent colleague, James Smith - not because I think it has any direct relevance to Asian markets, but because it may provide a mirror for some broader central bank behaviour (including possibly the US Fed), which in turn might affect market conditions here.

The BoE met yesterday, and did not change policy, but did give some pretty detailed guidance as to rates and balance sheet management that were very helpful, and have EURGBP knocking on the downside of 0.85.

In our region, we have a couple of hawkish central banks, RBNZ for one, and BoK for another, who will likely beat the BoE to hiking rates, and we think this will provide a little near term FX support, even if the medium term is dominated by taper thoughts on the USD. If nothing else, it adds a little variety and means it's a bit more than just trying to call EURUSD.

## Asia today

We've already had some data this morning from Japan. And it was bad. Labour cash earnings are an important input into household spending, and for June, the numbers for both were poor. Cash earnings fell 0.1%YoY, down -0.4%YoY in real terms. And household spending fell by 5.1%YoY. Remember, for most of the data we talk about currently, we have to then punctuate by noting the favourable base effects which bias the figures upwards. In the case of these figures, we are now dealing with the bounce after the fall as the base, which biases the figures downwards.

But either way, if you chuck some moving average lines through the index figure (not the percentage changes) these latest figures undershoot. It looks like a soft consumer spending outcome for 2Q21 beckons when 2Q21 GDP figures are released on 16 August. The consensus QoQ% estimate is currently 0.2%. We are already on the low side of this with a 0.0% QoQ forecast. I think we will stick with that. It already incorporates a fairly hefty negative consumer spending

forecast.

The Reserve Bank of India (RBI) also has its policy-setting meeting today, and Prakash Sakpal writes "We agree with the consensus, which thinks that the RBI will leave the main policy rates and the cash reserve ratio for banks unchanged -- repo and reverse repo rates of 4.00% and 3.35%, respectively, and CRR of 4.00% currently. The RBI will also maintain its bond-buying programme (G-Sec Acquisition Program or GSAP) aimed at anchoring bond yields lower. We think a key question for today's meeting is whether the RBI should restrain its liquidity-boosting policies. Such policies are partly stoking inflation rather than supporting economic recovery as evident from the steadily slowing bank lending growth towards low single-digits. And high inflation has been pressuring bond yields higher, defeating the purpose of GSAP operations. Inflation exceeded the central bank's 6% policy limit in recent months and is expected to remain elevated throughout the rest of this year. We consider the RBI among the first few Asian central banks to withdraw policy accommodation by early next year on inflation grounds. We have brought forward our forecast for the first 25bp rate hike from 3Q22 to 1Q22. Our end-2021 forecast for the 10-year bond yield is 6.50% and for USD/INR is 75.80 (spot rates 6.21% and 74.20)".

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