

Rock, scissors, taper

In trying to avoid talking about a taper, the Fed may be increasing the chances of a taper tantrum compared to what would happen if they were more open



rock paper scissors

Source: shutterstock

A horse walks into a pub...

Don't you just love central banks? Yesterday the FOMC met and James Knightley [has written a brilliant note together with our FX and rates colleagues](#) (Chris Turner, Padhraic Garvey) - where he cites the risk of an earlier rate move than the current dot-plot suggests (2023 rather than 2024), and raises the prospects of a taper before year-end, though wrapped around some twist operations to prevent the longer-end of the yield curve from rising. If left open-ended, this would not be far off a yield curve control (YCC) exercise, though YCC seems to be increasingly a dirty phrase in central bank circles, so they will no doubt come up with a more palatable expression for this nearer the time. I was toying with "managed withdrawal", but this conjures up images of people queuing up outside their local pharmacy for a beaker of methadone (or worse), and I'm sure I can do better.

Knightley's forecasts partly stem from the looming pick up in US inflation due over the middle of 2021, but also the fact that US households are sitting on unprecedented piles of liquid cash in cheque and savings deposits. This is a combination of enforced savings by the wealthy who are

unable to spend on services/experiences as they would normally do when the economy was not in lockdown, and government support cheques at the lower-income scales, which have also been partly saved. All of this sets the scene for a strong recovery this year based on pent up demand as the vaccine rollout progresses and the US re-opens. GDP growth of 5% in the US is a possibility (says Knightley) this year if so.

It's behind you ("Oh no it isn't!")

But to read the Fed statement and then listen to the press conference, you'd think the word taper didn't even exist. Do the people that advise Powell and other senior Fed speakers seriously think that not talking about taper now will make the eventual "big-reveal" less traumatic? Or, do you believe (as I do), that by trying to steer the market to an alternative view, the eventual admission will be much more likely to lead to a shocked sell-off? Answers on a post-card please (or e-mail).

I know US growth right now looks weak, and that will likely be re-emphasized by the 4Q20 US GDP numbers released later today (4.2% annualized rate expected by consensus, down from 33.4%), but markets aren't stupid, and neither are forecasters. The future does indeed look a lot brighter.

In any case, bond markets are being driven more today by a nasty equity sell-off, which has taken the 10Y UST yield down to only a bit over 1.0%. Against this lower yield environment, the USD is no longer seeming to be driven by yields but is gaining in a more risk-off environment. This was particularly evident against the AUD and NZD this morning, which are being battered. The NZD has taken an extra kicking from some weaker-than-expected December trade figures which have all but eliminated the trade surplus.

Other currencies in the region are losing ground to the USD too. The offshore renminbi has weakened sharply back above 6.50 and USDKRW has shot higher this morning reaching 1114. We will be looking at our forecasts for Asian FX today and there is a good chance we will be scaling back the appreciations previously penciled in, ahead of any prospective retreat from our aggressive EURUSD forecasts.

Asia today

Business sentiment indicators from South Korea already released showed an improvement in both manufacturing and service sectors, which is an encouraging backdrop for this quarter's production and GDP expectations. At 81, the Manufacturing index has recovered to roughly pre-Covid levels, though at 70, the services index still has some way to go before we can declare recovery.

Most of the other Asian data out today is from SE Asia, [and is covered in our sister publication, ASEAN Bytes](#), where we look at Philippine 4Q GDP (expected very weak), as well as Indonesia's budget tweaks and Singapore unemployment (should improve).

Author

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com