

9 January 2019
Opinion

Sea of Green

Equity market screens are uniformly green today - the reason, the Fed minutes seem to confirm a pause is coming...but that is because downside risks have grown...

Fed minutes confirm Powell's caution message

Markets relaxed even further on Wednesday after Fed minutes of the December FOMC meeting showed more discussion and more support for caution in the meetings ahead - seemingly in keeping with the more dovish message Powell presented following his not very generous comments at the FOMC press briefing. As others have also noted, the Fed minutes are not a transcript of the meeting, and their tone could have been tweaked to bring it more into kilter with the current message from Powell.

Whatever the reality, the case for a less automatic Fed policy approach in 2019 looks well supported now, though this is still consistent with our house view for a further 2 hikes this year, even if 1Q19 does mark a pause. And that too is not to be taken for granted. There is a long time to wait until March 21, plenty of inflation and wages data to come, and a data-dependent Fed will need to respond if the data moves in an unhelpful fashion. In the near term, those risks are weighted towards more hikes. The slowdown story is more likely to be an end of year affair.

Further, while a rally in stocks appears to be a reasonable re-pricing response given a greater likelihood of a more subdued Fed in 2019, it does not provide the fuel for a concerted move higher over time. Against this, analyst earnings estimates are being revised down, not too surprising as all this Fed caution talk is against a backdrop where the downside risks have heightened, and where trade truce (some further upbeat remarks today) and Fed optimism is probably overdone. This could still end in tears.

Is Parliament taking control of Brexit?

The Brexit Saga's latest twist involves the government's response to what seems likely to be another failed attempt to pass the EU-Divorce settlement on January 15. PM May is being harried by parliamentary amendments to bring her response to parliament forward in only a few days, to prevent her trying to get the bill over the line through delay and brinkmanship. An alternative proposal will need to be put forward shortly. A plan-B is being considered, say government spokespeople. This could involve freezing article 50 whilst further concessions are sought. Could it even include a second referendum, this time with the May deal as the subject for a leave-vote? I hope so, though I openly confess to an enormous bias in this direction. We should know soon enough.

Datavise - not too much

It is a light calendar for economic releases today, with little of note from the G7. In Asia, we can expect to see Chinese December CPI figures today, which could reflect lower food prices as a temporary response to greater hog supply following swine-flu outbreaks. This impact won't last. December money supply and new yuan loan data will also be released sometime this week.

The Philippines releases its November trade figures today. The consensus view for which is a slight narrowing of the deficit from \$4210m in October.

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