

Sense spoken in Sintra

I'm not known for my tolerance of some of the comments made by central bankers, but a good deal of sense seems to have been said at the central bank meeting in Sintra, Portugal.



Source: Shutterstock

Powell says some words

Central bankers from around the world have got together in Sintra, Portugal, to top up their tans and talk shop. I'm liking quite a lot of what I hear (unusual, I am quite hard to please), and it is not all from the big guns.

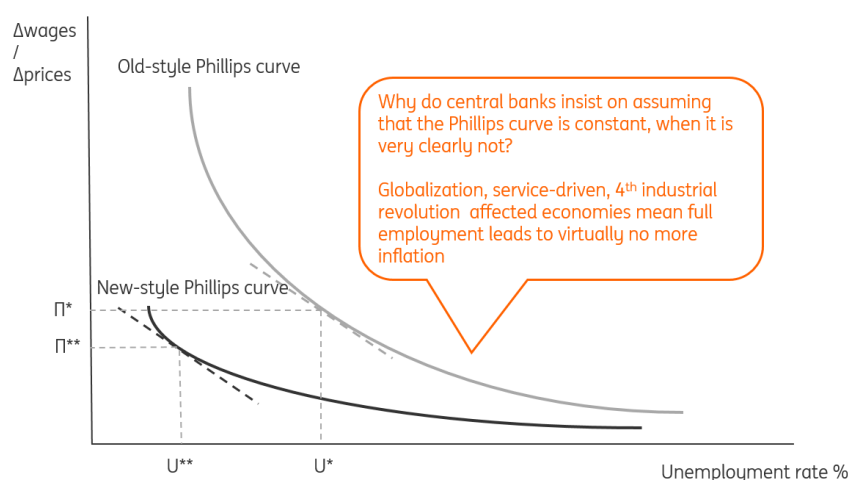
The RBA's Governor Lowe, said something that on the face of it, seems unremarkable, but has strong implications: "The system we're operating in looks less inflation-prone than it once was," he added that this was not something central bankers were finding easy to accept.

True, but more importantly is what this means for monetary policy. What it does not mean is that this is a free ticket to easier monetary conditions, though it does mean that the optimal trade-off between a little less unemployment and a little more inflation will happen at lower levels for each. It also suggests that traditional inflation targets of 2% might well deliver too easy a policy mix, as central bankers strive to drive inflation up, and in so doing, lead to a misallocation of credit, and support for unproductive activity. Ever wonder why productivity growth was so low? Look no further than your friendly neighbourhood central banker. Lowe seems to be getting it, but are the

others?

Promisingly, after scaring markets a little at the last FOMC meeting with the accelerated pace of tightening illustrated by the dreadful and misleading dot-diagram, Jerome Powell also seems to be getting it. "The US economy has changed in many ways over the past 50 years" he remarked: Yes Jerome, it has. which means you don't have to run monetary policy the same way as in the 1960s. Powell suggested that the path ahead would continue to be gradual, which is encouraging. He also said, and this is important because he denied this at the FOMC meeting, that "Changes in trade policy could cause us to have to question the outlook...for the first time, we're hearing about decisions to postpone investment, postpone hiring". Perhaps the only surprise here is that he didn't think this before. If only the US President were to start to understand the impact of trade wars...

Out with the old, in with the new (paradigm?)



Source: ING

May wins a vote

She hasn't won one for a while, so it is noteworthy that UK PM, Theresa May, has won a vote to reject an amendment by pro-European rebels to get a substantive vote on whatever deal (if any) she secures from the EU. May says Parliament will get a vote to accept or reject any deal, but as a 'take it or leave it' vote. She does not want to be sent back to Brussels to argue for changes to any deal secured. Her argument is that to give parliament (in other words, opposition parties as well as government) a vote on any deal weakens her bargaining position, as whatever she secures may not receive parliament-wide backing. Failure yesterday to win might have cost May her job, and might have brought the Conservative government down. But there are still miles to go, and little sign of any emerging deal with Europe yet. This will be a long summer for PM May.

The Bank of England has a meeting

Our colleague, James Smith, has written [an excellent piece](#) on today's Bank of England (BoE) decision. but for those of you who are rushed for time, here's the gist: The BoE wants to be ready to hike if necessary, with August the most likely window for any hike if the data supports it. After that, Brexit wrangling will probably keep the BoE on the sidelines, depending on how the negotiations go, perhaps for a long time. As well as Brexit, the decision to hike later this year will also depend on the run of data. Here, apart from some slightly better wages data (labour supply drying up as European's race for the exit?), the newsflow has been hugely unconvincing.

So August remains on the cards, but with a history of false "guidance", the BoE will probably be a little more tight-lipped than usual at today's meeting.

Day ahead - not much

Today's Asian calendar is mainly second-tier stuff, Thai customs basis trade data (unlikely to provide support for the Baht), Malaysian FX reserves etc. We do get the Taiwan Central Bank Meeting - but [no change is expected from them](#).

The Philippine Central Bank (BSP) met yesterday and hiked 25bp. [We expect more hikes ahead](#) as they battle to stabilize the peso. But we're also not convinced that this attempt to prop up the currency will succeed on its own.

With the exception of the Bank of England meeting, the G-7 is also quiet. French confidence indicators provide about the only interest later on.

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