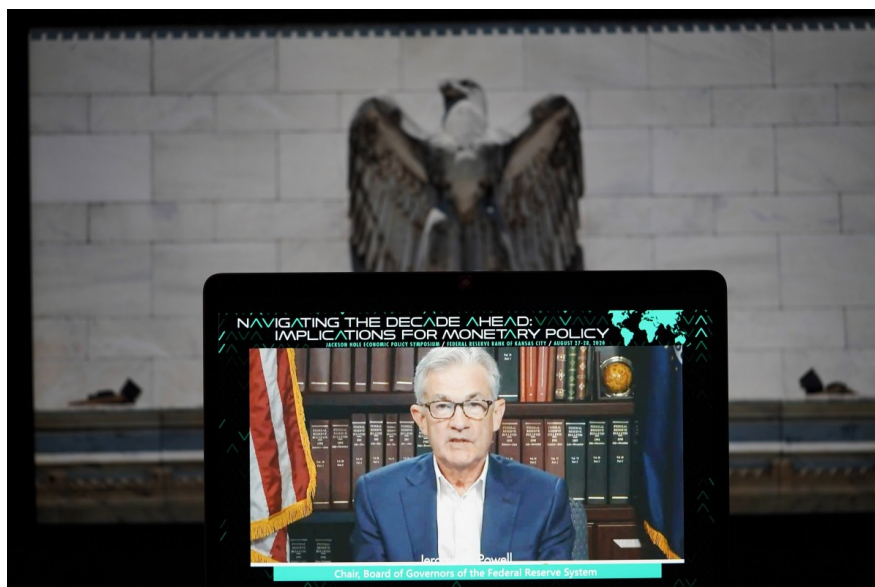


Sentiment supports uneasy market gains ahead of Jackson Hole

Asian FX gains against the USD, commodities rallying, bond yields rising and equities claw higher. But a hint of taper could undo all of this. Eyes down for Powell later this week.



Federal Chairman Jerome Powell delivering a speech to the Kansas City Fed's annual Jackson Hole research conference, which is held virtually this year because of the pandemic.

Source: Shutterstock

Sentiment lifted by US budget progress

It is undoubtedly a statement of the blinding obvious that sentiment is driving markets currently, as it always does. That said, these days it is harder and harder to find an underlying cause for swings in sentiment, which appears most days to have a life of its own. Today though, one development may be helping, and that is the US House of Representatives adopting a \$3.5tr budget resolution, which should also aid the passage of the \$550bn infrastructure bill and spare us from Filibusters in the Senate. That's good news in terms of the outlook for US growth. And this probably helped US Treasury bond yields to stage a decent rally yesterday by recent standards, with the 10Y yield rising a little over 4bp to 1.294%.

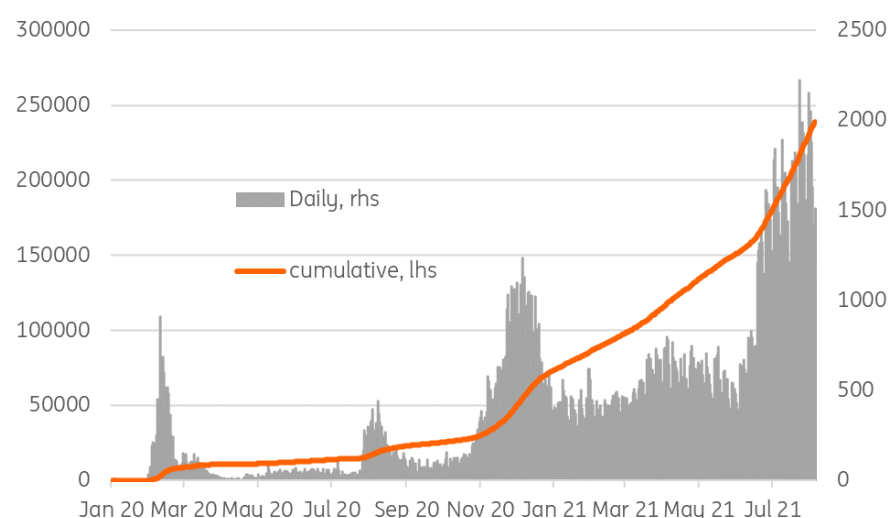
What happens today is a little harder to call, with sentiment positive but vulnerable to shifts ahead of the Jackson Hole conference which features Fed Chair Powell on Friday. Part of the sentiment improvement may lie with recent thoughts that this weekend's conference will not deliver any

further insight into the timing of any Fed taper. Or possibly that it may temper some recent suggestions that this taper will be more imminent than first thought likely. I suspect we will still be no wiser in terms of the Fed's intentions by Monday morning, and that may be enough for the optimists to keep sentiment positive.

Positive sentiment is also presumably behind a slightly weaker USD over the last couple of days. EURUSD has risen to 1.1756 from about 1.1740 this time yesterday, and we've also seen some reasonably broad (if minor) gains in Asian FX. The THB is the standout here on suggestions that it may relax its movement restrictions and learn to live with the virus. But with low levels of vaccination, and still high cases and death rates (Thailand ranks 12th globally today for daily Covid-19 deaths on Worldometer's figures) this seems a contentious decision. In any case, we doubt even vaccinated tourists will be rushing to the beaches of Thailand anytime soon just because they open their borders. Potential tourists also have to consider how they will be greeted on their return home. 2 weeks of mandatory quarantine in a hotel can really spoil that holiday feeling. Prakash Sakpal states that he is not "rushing to revise our end-year USD/THB forecast of 35.00 just yet given that the underlying economic fundamentals remain extremely unfriendly for this currency (spot 32.89)"

The KRW was also at the top end of the pack in terms of Asian FX, ahead of a very tightly considered rate decision by the Bank of Korea tomorrow. 10 of 19 economists surveyed by Bloomberg (including ourselves) are suggesting that the BoK will hold fire tomorrow, (perhaps taking their lead from the Reserve Bank of New Zealand) against the tricky backdrop of the rising Delta variant across the region). South Korea's current daily Covid-19 case tally is more than 1,500. That is high for Korea, but it is down from the 2000+ it was recording a few weeks ago. You could argue that this is enough to allow for a rate hike tomorrow, especially given yesterday's release of some further rapid increases in household debt. But it is a very close call. A BoK hike is certainly coming, so if not now, then within a month or two.

Korea: Daily Covid cases and cumulative total



Quiet day ahead for Macro data

There isn't much on the economic calendar in either the G-7 or Asia-Pacific to get your teeth into

today. Some import-dominated trade data has pushed the July NZ trade surplus into deficit by more than expected this morning (-NZD402m), which is weighing on the NZD. We have seen quite a few trade figures across the region illustrating that pattern of more rapid gains in imports than exports, which may reflect the impact of re-opening. That's encouraging on some levels, but it may put some of the more fragile currencies under strain as they emerge from the latest wave.

Prakash Sakpal gives us his thoughts on Malaysian inflation for July also due today. "After hitting a four-year high of 4.7% YoY in April this year, Malaysia's inflation slowed to 3.4% in June. We expect today's data to show a further drop to 2.9% YoY, in line with the market consensus. This deceleration stems from softer domestic demand amidst the worst Covid-19 outbreak currently, while base effects also fade. By product types, housing and transport have been the main inflation drivers here. We see inflation settling down between 2-3% in the second half of 2021, putting the full-year average near the low end of Bank Negara Malaysia's 2.5-4.0% forecast range for the year. Still, elevated inflation doesn't have any bearing on the BNM policy, which we expect to remain in a holding pattern well into 2022".

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

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

Senior 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