

## Target practice

Japanese CPI misses inflation target again, by miles. Sterling looking slightly stronger as EU hints at some flexibility on Brexit extension. Bond yields ease higher as stocks surge post FOMC.



### What's the point of a target that you always miss?

We don't usually start this note with any commentary on Japan, but [I've just knocked out a piece on the BoJ's unorthodox monetary policy settings](#), in which I suggest that they may actually be doing the opposite of what they're intended to. Japan's National CPI inflation rate for February has just been released, and at 0.2%YoY, it not only missed consensus (0.3%YoY) but it doesn't come close to the Bank of Japan's inflation target of 2.0% either. Moreover, I don't think anyone is going to blink if I suggest that inflation in Japan never will hit this target - at least not without external help from, for example, a consumption tax hike (though that's something else I don't think will now happen as the economy isn't strong enough and another postponement beckons).

A target that is consistently missed is, in economics, worse than no target at all. The whole point of these targets is that they should increase the central bank's policy credibility, which is useful if your policy tools are weak. In Japan's case, the unachievable target and its repeated misses on the downside actually detract from credibility, making weak tools even weaker. Indeed, as my linked note above suggests, not only are the BoJ's tools weak, they may actually be weakening growth

and inflation, not enhancing it - controversial, but give it a look if that suggestion piques your interest.

## Australian PMIs don't change the RBA story much

Yesterday, following some more soft data, this time, on the all-important labour market, we hinted that we might at some stage have to re-think our RBA on-hold forecast. PMI data today leave that forecast still hanging in the balance. The manufacturing purchasing managers index (PMI) drifted a little lower to 52.0 from 52.9, but the service sector PMI was a bit less weak at 49.8, though still just in the danger zone of sub-50 readings. The composite index is now bang-on 50.0, which basically says the economy as a whole is treading water. That probably isn't enough to get the Reserve Bank of Australia reaching for the rate cutting lever, but it leaves the rates outcome precariously balanced.

## Asia Day ahead

With most of the key data released early today, it is relatively quiet in Asia. FX reserve data for Thailand and Malaysia are of little interest for current account surplus countries, which leaves Malaysian CPI the pick of the day. The consensus view is for this to fall at a slower rate this month, though our Prakash Sakpal is at the top of the pack with a +0.5%YoY forecast, though mainly due to Lunar New Year influences on food prices and base effect slippage. This isn't anything for Bank Negara Malaysia to worry about.

Out in the G-7, PMI's are the main calendar focus, though there is also some CPI data from Canada, which could inform the Bank of Canada rate outlook. The US also has home sales data. As one of the more interest rate sensitive parts of the US economy, this might take solace from the Fed's recent dovish tilt. Existing home sales have been falling consistently since early 2018.

## Holiday update

With the prospects for a no-deal Brexit on March 29 still alarmingly real, and threatening my Easter holidays, there is a glimmer of hope that the EU may give Theresa May a slightly longer deadline than they were first suggesting (now to April 12), even if, as we suspect, she fails to get her draft bill through parliament at the third attempt next week. They may then allow a much longer delay (if the UK doesn't crash out at that point), though subject to the UK rejecting a no deal and embarking on a slightly more realistic plan for Brexit involving (most likely) staying in the EU Customs Union.

At stake here, as well as the entire future of the UK, is my Easter holiday transport logistics of an EEA-passported wife picking up a UK passported son from school in the UK, via Singapore, and then transporting him to France where he will be met by me and son number two - both UK passported in Toulouse via Frankfurt, again from Singapore. Let me know if you think it worth me setting up a live blog to plot our attempts to navigate Europe in the Post Brexit fog. It could help while away the days spent camping on airport floors. I think we will now get there. I'm not sure how we will get back if the April 12 deadline is tripped.

More seriously, the new time limits put added pressure on hard-line Brexiters to back May's deal or face a much longer time in the EU. This should help the party arithmetic, but having inflamed the anger of many MPs with her recent speech, in which she blamed them for her failures to achieve Brexit, this may already be a battle lost.

## Risk optimism post-FOMC

Equity markets have had time to digest the Fed's unambiguous message on rates and have concluded that it's more of a case of "the Fed is leaning to pro-growth" rather than "the Fed knows something bad that we don't". The S&P 500 has now broken above previous highs at about 2819 which were providing resistance and now has a fairly clear run up to the 2018 high of 2939. In doing so, it could drag bond yields a bit higher. 10Y US Treasury yields are up a fraction at 2.535.

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