

## Treading carefully

Central Bank action today with the Fed's Powell in testimony to the House in the US, and BoK meeting. Steady markets will be a good result.



Source: Federal Reserve

### Powell - may opt to play it safe

In recent days, we have suggested that one strategy for incoming Fed Chair, Jerome Powell, will be to sound more hawkish than he really is. This is all about building a reputation for hawkishness, that may enable him to act more credibly (efficiently) in the future - perhaps even resulting in a lower terminal Fed funds rate. But the backdrop of jittery markets cannot be wholly ignored. As such, the more likely outcome for Powell may be a speech and answers that differ insubstantially from the language used by his predecessor, Janet Yellen. He has more to lose today than he has to gain.

The time to stamp your authority on a new job is, admittedly, right at the beginning, so adopting a Yellen-like stance early on could pose some difficulties later. Luckily for Powell, he does not inherit an inflation problem, rather, a lack of one, so the trade off between reputation building and pragmatic demand management is a relatively easy one. But that could begin to change over the coming months.

Clearly, if Powell does opt to take a harder line, we will likely see the US Treasury curve flattening - though the outcome for equities will crucially depend on how this flattening occurs. If it is with higher longer term bond yields, then we might well brace for another sell off in equities.

1.5%

BoK policy rate

Expected unchanged by all forecasters

## BoK - nothing to see here

There is complete unanimity in the consensus for the BoK meeting later today. Hardly surprising. Sure, growth is OK, if all you care about is numbers. The mix is not too bad either, with a reasonable mix of domestic demand to overall growth, probably helped by the last budget's minimum wage rises and public sector employment increases. This might seem like old school socialist economics, but in a world of ever rising inequality, and soggy demand, it is probably what was needed, and not just in Korea. The export picture is less bright. Net exports have been a drag on growth recently, and the mix of exports is very narrowly focussed around semiconductors.

The strength of the KRW is not a particular issue. On neither nominal nor real effective exchange rate bases does the KRW look particularly misaligned, at least relative to other Asian FX peers. Recent KRW softness during the February volatility has not entirely been reversed. We would look for the KRW to recommence appreciating in the coming months, with or without any help from the BoK.

But the over-arching issue for the BoK is inflation. Not only is the headline inflation rate only 1.0%YoY, but core inflation is only 1.1% too. Until and unless we see inflation heading back up towards 2%, there seems little likelihood of the BoK doing anything with policy. When this might happen is not clear. What is clear, is that it won't happen anytime soon. We expect nothing from the BoK until later this year when we have one hike pencilled in.

## ECB - Come on Draghi! When is the outcome ever certain?

Skirting the Latvian fiasco, ECB President, Mario Draghi, stuck to his increasingly non-credible story that the Eurozone economy needed further stimulus, in spite of ongoing solid growth figures. "In the presence of an economic situation that is improving constantly, we need the right blend"...."uncertainties continue to prevail". If uncertainty was the only argument for monetary easing, central banks would never tighten. Draghi avoided any direct references to the EUR, though noted that it needed "close monitoring". He will have to bite the bullet on tapering and an end to QE at some point, and the EUR is never going to make this easy. But prevarication will only make this harder, and the adjustment more painful.

## Singapore - the chips are up

Following some fairly uninspiring data flow in recent months, our hesitant call for a very small tightening by the Monetary Authority of Singapore at the April meeting, got a small boost from January industrial production data yesterday. Overall production rose 6.7%MoM, for a 17.9% YoY gain. But the result would have looked less impressive had it not been for a 12.5%MoM gain in

semiconductors. A rare gain in pharmaceuticals (+26%MoM) and medical technology (8.5%MoM), certainly helped. Given recent trends, this looks more like a one-off than a trend change. And outside semiconductors, other electronics growth was weak, or non-existent. While our confidence in the MAS call is not strong, these figures provide a crumb of comfort. But the narrowness of production gains and export strength still concerns us.

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