

## 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.

## Author

### Robert Carnell

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).