

US resilience may mean the Fed has to talk tougher

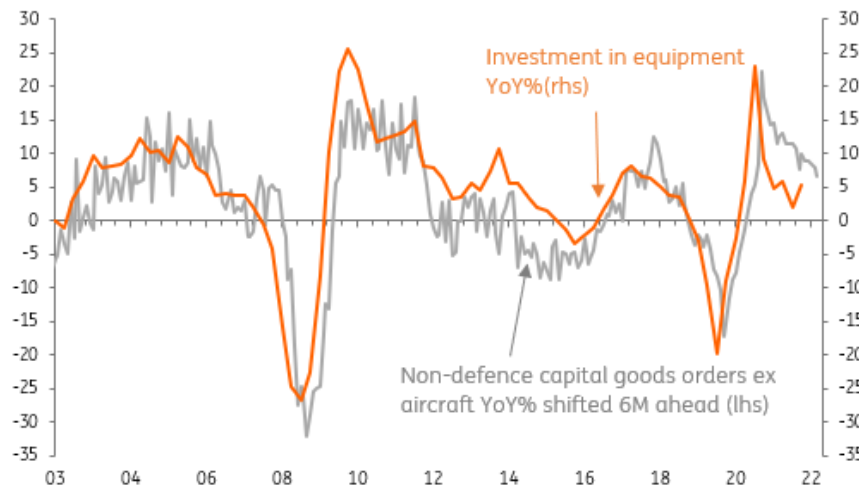
The market is firmly backing a 50bp hike from the Federal Reserve in December, but the 7% drop in the dollar against major currencies and the plunge in Treasury yields is the exact opposite of what the Fed wants to see as it battles inflation. With US data proving to be pretty resilient the Fed's rhetoric may need to toughen even more



Investment holding up better than expected

This morning's US data is a little mixed. The good news is that the durable goods report is solid and points to business capex holding up well in the fourth quarter. We always ignore the headline number, which rose 1% month-on-month versus the 0.4% consensus expectation as it gets buffeted around by Boeing aircraft orders, which were decent at 122 planes versus 96 in September. The Fed tends to look more at the non-defense capital goods orders ex aircraft as a cleaner measure of what is happening in the corporate sector. It rose 0.7% MoM versus expectations of 0.0%. Admittedly the September number was revised a little lower to -0.8% from -0.4% and, as the chart below shows, it is trending towards slower growth, but it is not suggesting companies are looking to retrench imminently.

US core durable goods orders and business investment



Source: Macrobond, ING

Jobs story looking potentially troubling

As for mortgage applications, they rose given the typical 30Y mortgage rate has followed Treasury yields lower to 6.67% as of last week versus 7.16% four weeks ago. The result is that mortgage applications for home purchases rose for the third consecutive week.

The not-so-good story was the rise in initial jobless claims to 240k from 223k (consensus 225k) while continuing claims rose from 1503k to 1551k, suggesting that there is evidence of a cooling in the US labour market. This has certainly been the case in the tech sector, but more broadly the job openings data suggests there are still 1.9 job vacancies to every single unemployed American, i.e. demand is vastly outstripping supply of workers. The consensus for next Friday's payrolls number is for a 200k jobs gain and we doubt expectations will shift much for that, but the rising lay-off story is something we will be closely following and could hint of early signs that the jobs numbers in early 2023 being softer.

Fed may need to toughen its stance

All in this week's data probably doesn't mean much for the Federal Reserve policy meeting on December 14th. Instead, all eyes will be on next Friday's jobs report and the December 13th release of November CPI. The market is firmly behind a 50bp hike call given Fed speakers have indicated the likelihood of less aggressive step increases in interest rates after four consecutive 75bp hikes.

However, we are a little nervous that the 7% fall in the dollar against the currencies of its main trading partners and the 45bp drop in the 10Y Treasury yield is leading to a significant loosening of financial conditions – the exact opposite of what the Fed wants to see as it battles inflation. Consequently, we wouldn't be surprised to see the Fed language become even more aggressive over the coming week, talking about a higher terminal interest rates – with some of the more hawkish members perhaps even opening the door to a potential fifth consecutive 75bp hike in December to ensure the market gets the message.

Author

James Knightley

Chief International Economist

james.knightley@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 <http://www.ing.com>.