1 September, 2021

All eyes on Jackson Hole Symposium

An annual economic event- Jackson Hole meeting has taken on great importance which gathered the chief of worldwide most powerful central bank to discuss macroeconomic issues. Amid signs that the recovery is beginning to take hold, all eyes are on Fed Chair Jerome Powell speech rolling out any signals when to start tapering that can create market volatility. Another concern is the spread of the COVID-19 Delta variant, which sets the pace of economic recovery and inflationary pressures. The Powell's speech took place on 27 Aug 2021 at 10 p.m. (Hong Kong time zone).

Hints of policy direction from Powell's speech

- Powell endorses an eventual reduction of monthly asset purchases. He said that he was among the majority participants in that meeting who were of the view "that if the economy evolved broadly as anticipated, it could be appropriate to start reducing the pace of asset purchases this year".

- Meanwhile, he reiterated that a decision of tapering off monthly asset purchase of $120bn does not mean it will be raising interest rates right after the tapering off was completed. "The timing and pace of the coming reduction in asset purchases will not be intended to carry a direct signal regarding the timing of interest rate liftoff, for which we have articulated a different and substantially more stringent test," Powell said.

- He believes some "substantial further progress" has been made. "My view is that the substantial further progress test has been met for inflation". Powell said, "the prospects are good for continued progress toward maximum employment."

Employment and Powell's view

The recent data has shown the progress on labor market, job additions were better than economists' forecasts to 943,000 in July, according to US Labor Department, which is the largest monthly job addition since Sept 2020. The unemployment rate also fell from 5.9% in June to 5.4% in July to its lowest point during the pandemic, but still well above the pre-outbreak levels of less than 4%. Initial jobless claims rose slightly by 4,000 for the week ending August 21 after hitting a pandemic low of 349,000 the previous week, according to Labor Department data.

Referring to job market, Powell acknowledges that the U.S. economy still has a long way to go before it creates enough jobs to match pre-pandemic levels of employment, and a much longer way before reaching the Fed's ultimate goal of full employment.

Inflation and Powell's view

The current U.S. inflation is above Fed's target, the various measures of inflation are running in a range between 3.6%-4.2% annually, well above Fed's long-term goal of 2%.

Referring to inflation, Powell reiterated his view that inflation is temporary and "is so far largely the product of a relatively narrow group of goods and services that have been directly affected by the pandemic and the reopening of the economy". Powell sees current spikes in inflation as largely the result of transitory factors, indicating that the central bank "will continue to hold the current target range for the Fed funds rate until maximum employment and sustained 2% inflation" are achieved.

Current pandemic in the US and Powell's view

Covid-19 cases have spiked again across the country as the delta variant spreads, spurring companies to re-evaluate return-to-work plans and schools to return to virtual education, quarantines and mask requirements. Delta's spread in the U.S. is already weighing on consumer and economic sentiment. The seven-day moving average of daily new cases stood at 133,056 as of August 20, a 14% increase from the previous seven-day moving average, according to data from the US Centers for Disease Control and Prevention.

Meanwhile, just over 50% of Americans are fully vaccinated against the coronavirus, and the pace of vaccinations has not kept up with the spread of infections.

Referring to the pandemic, Powell acknowledged the challenges still presented by the pandemic. The pandemic continues to threaten not only health and life, but also economic activity.

Market reaction after the Powell's speech

Index and bond traders were enthused by the Powell's dovish speech and potential for continued stimulus, with the Dow Jones, S&P 500 and NASDAQ surged to 0.69%, 0.88% and 1.23% respectively after Powell's speech. The markets registered confidence that the Fed can taper, or slowly withdraw, monetary stimulus without causing a spike in interest rates. The 10-year Treasury bond yield fell to 1.31%.

Conclusion

In short, inflation is a short-term problem. The U.S. economy is below pre-pandemic employment levels, and far below its full employment level. The Delta variant also gave additional uncertainties to recovery. What do all of the above mean for tapering?

However, as the economy had been recovered quite substantially from the deep depression in Q1 and Q2 last year, there is still a high probability that Fed would start tapering within this year in terms of reducing monthly purchasing assets, the only difference is whether it will announce in September, November or December. But it is highly likely that the asset purchase reduction will be gradual and slow, and depends on how the coronavirus spread unfolds.

With the U.S. economy appearing to be at pre-pandemic levels and the employment figures throwing up positive surprises, the impending rise in interest should soon be witnessed in the economies. However, it can be put off for a long time as Powell reiterated that tapering does not carry direct rate hike timing signal and it is still very far away for the economy to reach conditions consistent with maximum employment. Thus, this has been speculated by the market that still have long way for rate hike.

Source: CNBC, BBC News, Yahoo Finance, Financial Times, Investing.com, Forbes, Reuters, WSJ, SCMP, Bloomberg

Important Note & Disclaimer:

- The document is property of AMG FINANCIAL GROUP. All information in this document is strictly for information purposes only and should not be considered as an invitation, an offer, or solicitation, to invest or a recommendation to buy or sell any particular security or to adopt any investment strategy mentioned herein. AMG Financial Group Limited (here after AMG) endeavors to ensure the accuracy and reliability of the information provided but do not guarantee its accuracy or reliability and accept no liability for any loss or damage arising from any inaccuracies or omission. Some of the information in this document may contain projections or other forward looking statements regarding future events or future financial performance of countries, markets or companies. These statements are only predictions and actual events or results may differ materially. Any opinion or estimate contained in this document is made on a general basis and is not to be relied on by the reader as advice. AMG reserves the right to make changes and corrections to its opinions expressed in this document at any time, without notice to the recipients of this document. Any unauthorized disclosure, use or dissemination, either whole or partial, of this document is prohibited and this document is not to be reproduced, copied, and made available to others. Investment involves risks. The value of any investment and the income from it can rise as well as fall as a result of different market risks, such as currency and market fluctuations. Past performance figures shown are not indicative of future performance. The recipients of this document should seek for professional advice if they are in any doubt about any of the information contained herein. This material has not been reviewed or approved by the Securities and Futures Commission.

For any comments, please send email to us at enquiries@amgwealth.com.

AMG FINANCIAL GROUP
40/F, 118 Connaught Road West, Hong Kong
Telephone: (852) 3970 9531 Facsimile: (852) 3426 2650