



R&R Weekly Column
By Brunello Rosa



Powell Hints At A New Policy Stance In Jackson Hole

[In our column last week](#) we wondered whether or not Jerome Powell, the Chair of the Federal Reserve's Open Market Committee (FOMC), would suggest a change in the US central bank's policy stance during his speech at the annual symposium of central bankers and academics in Jackson Hole, Wyoming. The meeting, initially scheduled to take place in a live, in-person format, eventually took place virtually instead, given the recent resurgence of Covid cases in the US due to the spreading of the Delta variant.

The speech, titled "[Monetary Policy in the Time of COVID](#)", [discussed the various phases of economic activity](#) experienced by the US economy since the inception of the pandemic, from the pre-pandemic slowdown which led the Fed to three pre-emptive rate cuts in 2019, to the sharp recession in 2020 (with drops in economic activity of unprecedented scale), and finally to the recovery phase, which started in Q3 2020 and, despite plenty of bumps along the way, still continues today.

The most relevant part of the speech was about the progress made towards meeting the two targets of the Fed: inflation and employment. Regarding inflation, Powell said that sufficient progress was made towards assuring that US inflation will be 2% over the forecast horizon on average. The recent spikes of inflation to 5% and beyond derive from "temporary factors" such as higher energy prices, base effects, supply bottlenecks and the re-opening of the economy in some specific sectors. The Fed is monitoring wages and inflation expectations to check whether inflation risks spiralling out of control. That is still a low-risk scenario at this stage.

Regarding employment, Powell said that more progress needs to be made towards meeting the target not just from a quantitative perspective, but also from a qualitative point of view. Yes, the unemployment rate has fallen significantly from its peak, and is now at 5.4%, but according to Powell it "is still much too high, and the reported rate understates the amount of labor market slack. Long-term unemployment remains elevated, and the recovery in labor force participation has lagged well behind the rest of the labor market, as it has in past recoveries."

On the back of these considerations, and repeating what the minutes of the July FOMC meeting said, Powell concluded that "if the economy evolved broadly as anticipated, it could be appropriate to start reducing the pace of asset purchases this year." This will not provide, Powell said, any indication of when the Fed will start increasing rates, "for which [the Fed has] articulated a different and substantially more stringent test. [The Fed has] said that [it] will continue to hold the target range for the federal funds rate at its current level until the economy reaches conditions consistent with maximum employment, and inflation has reached 2 percent and is on track to moderately exceed 2 percent for some time." And that is still some time away from happening.

In conclusion, Jackson Hole provided the type of signal that market participants were looking for. If the economy evolves in line with current forecasts (which will be updated in September), the Fed may begin to taper its QE in December. This means that a formal announcement may come in September or November, but at this stage it will not make a massive difference. The market took the news out of Jackson Hole quite positively, as Powell's hint was so nuanced and caveated that participants expect the Fed to always err on the cautious side. And so do we.

Our Recent Publications

 [Flash Review: RBNZ Postpones Its Rate Hike After The Government Suddenly Imposes A New Lockdown](#), by Brunello Rosa and Fawaz Al Mughrabi, 19 August 2021

 [2021-22 Oil Outlook: Supply Increases, As Global Demand Improves](#), by Fawaz Sulaiman Al Mughrabi, Karmen Meneses and Alessandro Magnoli Bocchi, 16 August 2021

 [Flash Preview: RBNZ Likely to Raise Rates in August, First Among G10 Central Banks](#), by Brunello Rosa and Karmen Meneses, 13 August 2021

 [GEOPOLITICAL CORNER: The Origins Of Covid Are Clear, And China Is Guilty Of Covering Them Up](#), by John C. Hulsman, 23 August 2021

Looking Ahead

The Week Ahead: Unemployment Expected To Fall In the US; Inflation Expected to Rise in EZ

In the US, August's non-farm payrolls are expected to fall to 665k (*p*: 943k), and the unemployment rate to 5.2% (*p*: 5.4%).

In the EZ, in August, economic sentiment is expected to fall to 117.9 (*p*: 119.0). EZ's August's inflation rate is expected to increase to 2.8% y-o-y (*p*: 2.2%) and core inflation to 1.5% y-o-y (*p*: 0.7%).

In Turkey, August's inflation is expected to edge lower to 18.7% y-o-y (*p*: 18.9%).

The Quarter Ahead: COVID-19 Vaccinations Rise As Delta Variant Spreads, Pfizer Receives Full FDA Approval

In the US, Fed chair Jerome Powell signaled that the central bank could begin unwinding its monthly bond purchases by year-end. During its annual Jackson Hole conference, he stated *'substantial further progress has been met for inflation and that the country is making clear progress on getting people back to work'*. As a result, market analysts expect the Fed to start tapering its monetary stimulus later this year.

As the highly contagious Delta variant spreads through the US, COVID-19 vaccination rates have picked up, particularly in states hit hard by recent surges. However, just 51.5% of the total population and 60.3% of those 12 years and older are fully vaccinated – as the number of daily shots in arms remains below spring highs, mutations lead to more infectious versions of the coronavirus.

EU moves to reintroduce COVID-19 travel curbs. The EU moved to reinstate COVID-19 travel restrictions (e.g. quarantine and testing requirements) for unvaccinated citizens of the US and five other countries.

IATA Calls for EU's Digital COVID Passport to Be Implemented Globally. The International Air Transport Association (IATA) praised the EC for delivering the EU Digital COVID Certificate (EU DCC) *"in a record time"*, and called on countries worldwide to *"adopt the document as standard for digital vaccines certificates"*. The EU DCC is recognized for cross-country travel, as it: *i*) allows authentication across the EU; and *ii*) can be used to share protected data among all issuers.

US airstrike targets Islamic state member in Afghanistan. Less than 48 hours after a devastating suicide bombing claimed by ISIS-Khorasan killed as many as 169 Afghans and 13 American service members at the Kabul airport, the US military conducted a drone strike against an Islamic State member believed to be planning future attacks.

Last Week's Review

Real Economy: Global Economic Recovery Remains Hindered By Lingering Downside Risks

In the US, Q2 GDP grew at an annualized 6.6% q-o-q, slightly higher than 6.5% in the advance estimate, but still below forecasts of 6.7%. 'Nondefense capital goods orders excluding aircraft' – a proxy for business investment – fell more-than-expected in July (*a*: 0.0%; *c*: 0.5%; *p*: 1.0%).

In Japan, June's index of leading economic indicators – a gauge of the economy a few months ahead, compiled using data such as job offers and consumer sentiment – rose to 104.1 (*c*: 104.1; *p*: 102.6), marking the highest reading since February 2014, as a recovery in the economy from the COVID-19 pandemic gained momentum on the back of a ramped-up vaccination program.

Financial Markets: Stocks Rally; Bond Yields Up Slightly; A Weaker USD Boosts Commodities

Market drivers: investor sentiment strengthened, supported by: *i*) CBs' accommodative policies; *ii*) signs that economic growth remained strong in August; and *iii*) hopes that rising vaccination rates might help to prevent hospitalizations and deaths - as economies reopen and case counts increase.

Global equities rose w-o-w (MSCI ACWI, +2.0%, to 737). In the US, the S&P 500 Index hit a new high (+1.5% w-o-w to 4,509), lifted by: *i*) a full FDA approval of the Pfizer-BioNTech COVID-19 vaccine; and *ii*) the Fed Chair Powell indicating that the Fed would taper by the end of the year. In the EZ, shares gained momentum (Eurostoxx 50, +1.0% to 4,191) driven by: *i*) the ongoing economic recovery; and *ii*) improved business activities.

Fixed Income: w-o-w global bonds fell slightly (BAML Global, -0.3 to 297.5) and UST yields rose gently (+6 bps, to 1.31%), after the Fed indicated that it will likely begin tapering its USD 120bn in monthly bond purchases before the end of the year, and – as a result - interest rate are unlikely to be hiked anytime soon.

FX: w-o-w, the US Dollar Index lost ground (DXY, -0.9 %, to 92.686; EUR/USD +0.8%, to 1.179), as investors dumped the USD after the Fed indicated that *"interest rate hikes aren't imminent"* as there is still *"much ground to cover"* before the economy hits full employment.

Commodities: Oil prices surged (Brent, +11.5% to 72.7 USD/b), the highest since August 2, the highest weekly gain since June 2020. Gold prices rose (+2.0% to 1,817 USD/Oz); the precious metal maintained its safe-haven appeal, as worries over the rapid spread of the Delta strain persisted, and some countries in the Asia-Pacific imposed fresh restrictions.



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Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year