



# Powell hawkish, but much already priced in

## Powell hits all the hawkish notes, skips the dovish

Fed Chair Powell gave a hawkish speech at the Jackson Hole Conference. The hawkish features were his acknowledgement of the pain that is likely needed to reduce inflation – no more soft landing; the indication that rates will need to be taken above neutral; vagueness on any slowing of the pace of hikes; and hints that he thinks acting aggressively now could speed up disinflation. Notable were the characterisation of labour markets and the economy as still strong, and the absence of any reference to the risks of overshooting on hikes.

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## Implications

Markets had already anticipated a hawkish speech. The reaction was to bid up near-term yields, but was relatively mild overall. Looking at Powell's reference to the pace of hiking, he appears to be leaning towards 75bps in September; but that is complicated by the pullback in inflation expectations in the Michigan survey and the weaker-than-expected core PCE reading. Moreover, there is a good chance that August payrolls (released 2 September) will show softer payrolls.

The USD rose on the release of the speech, reversing the softness triggered by reports that the ECB was considering a 75bps hike at its next meeting. All G10 currencies came off after the speech, led by AUD, NZD, NOK, SEK and GBP. CHF, EUR and JPY were hit less hard, but still lower. Overall, BBDXY as of 11 a.m. ET was trading at Thursday levels, but below Monday and Tuesday. The upward move in yields was likely moderated by the 1.5% drop in equities in the aftermath of the speech.

We maintain our view of a 50bps policy rate hike in September for now, but are mindful of the risk that the FOMC delivers 75bps and keeps hiking until there is compelling evidence of a slowdown and some evidence of slowing inflation. We expect evidence of economic slowdown to become clear in the coming months, but Powell did not signal that he saw a slump as imminent; nor did he indicate a quick move to a pause on economic weakness, but he may have aimed to convey a hawkish reaction function to make his message clear.

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