– DAILY COMMENTARY BY THE CURVE TEAM –

DATA DIPS AS FOMC DEBATE CONTINUES

8th of January, 2018

The data was a bit of a disappointment on Friday with the domestic data posting a big miss while non farm payrolls in the US also fell short of estimates. The data was largely overshadowed by the ongoing internal debate at the Fed with several members speaking Friday night.

Australia’s trade surplus posted a big miss, falling into deficit to the tune of $628m after a surplus of $550m was expected. Export growth disappointed once again and continues to suggest that exports will add little to growth in Q4. On the upside, imports of consumer and capital goods suggest a pick up in consumer activity and a continued improvement in business investment.

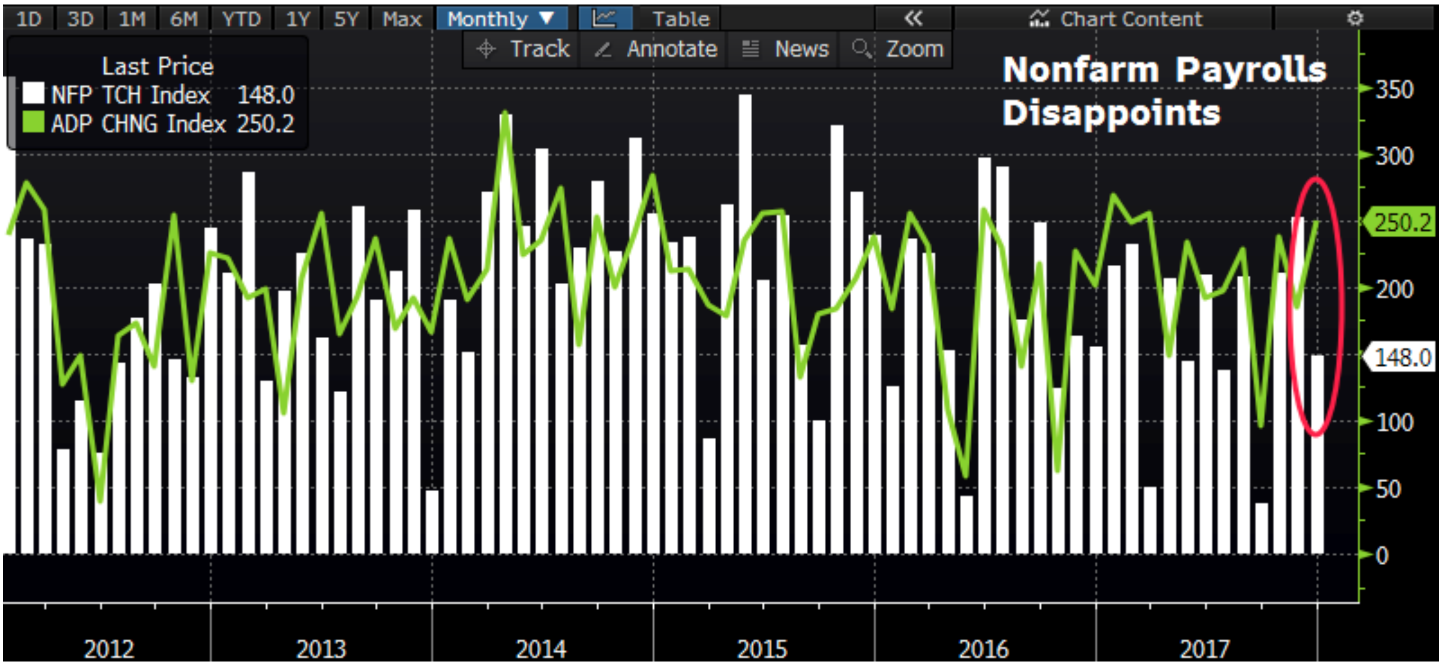
After a bumper ADP employment report Wednesday night, the market had high hopes of a solid nonfarm figure Friday night. The end result was an of 148,000 against expectations of a 190,000 rise. Any disappointment was short lived as the unemployment rate held steady and wage growth for the month was a healthy 0.3%, lifting the annual increase to 2.5%.

Meanwhile the FOMC continues to be at odds with its dual mandate. While the health of the economy is on track, the lack of visible inflationary pressures in the official statistics continues to cause concern among some members.

Patrick Harker and James Bullard said Friday that the Fed could afford to be patient with Harker specifically suggesting the fed could run the economy a little hot and wait for inflation to pick up. At the same time John Williams said he though that the 3 hikes in the dot plot is still on the right track while Loretta Mester was more hawkish suggesting 4 hikes.

While the debate rages along at the Fed, Jens Weidmann from the Bundesbank (Germany’s central bank) was out talking up the end of the ECB’s QE program saying *“the prospects for the evolution of prices correspond to a return of inflation to a level sufficient to maintain the stability of prices.”*

It all points to a very important year ahead for monetary policy watchers as mixed signals cloud the outlook which could ultimately lead to a return of volatlity after a hiatus during 2017.



David Flanagan

Director - Interest Rate Markets

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