



*R&R Weekly Column*  
*By Brunello Rosa*



## Jackson Hole Meeting: Will The Fed Announce A Change In Its Policy Stance?


This year, between August 26 and 28, [the annual symposium](#) of central bank governors and academics organised by the Kansas City Fed and held in Jackson Hole will return to a “live” format, after the 2020 edition was held in virtual format due to the pandemic. In the past, Jackson Hole was the occasion at which central bankers announced significant changes in the policy stances of their institutions, based on research presented in the informal and relaxed environment provided by the resort in the mountains of Wyoming.


Market participants are anxiously waiting for the speech by Jerome Powell, the Chair of the US Federal Reserve, which he is scheduled to give on Friday. They expect Powell to provide details about a possible change in the Fed’s policy stance, such as the beginning of the tapering in asset purchases. Currently the Fed buys USD 80bn/month of US Treasuries and USD 40bn/month of mortgage-backed securities (MBS). The Fed, through its usual communiques and press conferences, has been very careful [not to provide hints of an imminent beginning of tapering](#). This is to avoid the repeat of the so-called “taper tantrum” of 2013.


[On that occasion](#), Fed Chair Ben Bernanke, during a Congressional testimony, indicated that the Fed will reduce the pace of its asset purchases, which it had been carrying out since 2008, “at some point”. That was enough for market participants to anticipate the beginning of the tapering process and fully discount it in market rates, which rose rapidly as a result, leading to a strengthening of the USD and a sudden outflow of funds from Emerging Markets. This year, in contrast, many EM central banks have already started to increase their policy rates, in anticipation of the Fed’s reduction in accommodation. In any case, the Fed will want to avoid the repeat of a similar episode to that of 2013, which caused a turmoil in financial markets for several weeks.


So far, the Fed has said that until sufficient progress has been made towards meeting its employment and inflation targets, the Fed will not change its policy stance. However, [in July Powell said that the FOMC had taken its first “deep dive” into the timing, size and composition of its asset purchase program](#). Additionally, [the minutes of the July](#) meeting showed that a majority of FOMC members thought that, if the economy evolved in line with the FOMC’s Summary of Economic Projections, the beginning of tapering should then be announced between September and December. We still expect the FOMC to formally announce tapering in December, but the meetings in September and November should acknowledge the progress made in meeting the policy goals. In Jackson Hole, the Fed will likely set the scene for these announcements to take place between now and the end of the year, supported in its decision to do so by evidence provided by its research staff.

### *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

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

 [Flash Review: BOE Adds Negative Rates To Its Toolkit and Modifies Its Policy Mix For The Exit Sequence](#), by Brunello Rosa and Fawaz Sulaiman Al Mughrabi, 5 August 2021

 [GEOPOLITICAL CORNER: A Divided EU Is Unprepared For The Sino-American Cold War](#), by John C. Hulsman, 10 August 2021

Looking Ahead

The Week Ahead: Business Activity Expected to Slow Down in Major DM Countries

**In DMs**, PMIs are expected to soften, as: *i)* US indicators point to a gentle slowdown (*c:* 63.0; *p:* 63.4); *ii)* EZ business activity slows (*c:* 62.5; *p:* 62.8); and *iii)* Japan's restrictions due to 'state of emergency' hinder activities (*c:* 52.8; *p:* 53.0).

The Quarter Ahead: Global Supply Chains Likely to Be Battered by Fresh COVID-19 Surges

**Global supply chains likely to be battered by fresh COVID-19 surges.** Asia's renewed surge in COVID-19 infections is compounding supply-chain blockages across the world's biggest source of manufactured goods. After weathering earlier pandemic waves better than other regions, in Asia the fast-spreading delta variant has thrown into turmoil factories and ports - in countries that were once among the most successful containing the virus.

**In the US**, the Fed's efforts to reverse its easy policy will be a dominant theme for markets in the week ahead, as central bankers gather in Jackson Hole, Wyoming. FOMC officials, in numerous recent speeches and interviews, have already managed to rise expectations for when they "could begin to slowly pare back the USD 120bn a month in bond purchases".

**The security situation in Afghanistan remains fluid.** The Taliban moved swiftly to crush early opposition across Afghanistan, undermining their repeated attempts to convince the world that their rule will be more inclusive than it was two decades ago.

**US, UK impose sanctions on Russian intelligence agents.** The US and Britain both targeted seven Russian individuals with sanctions and also issued a joint statement - warning Russia over chemical weapons. Washington separately imposed sanctions on another two men and four Russian institutes believed to be involved in chemical weapons research or in an assassination attempt against Alexey Navalny, a Russian opposition leader.

**China economy under pressure.** China's factory output and retail sales growth slowed sharply and missed expectations in July, as: *i)* new COVID-19 outbreaks; and *ii)* floods disrupted business operations, adding to signs the economic recovery is losing momentum.

Last Week's Review

Real Economy: Global Economic Recovery Stumbles, As Downside Risks Remain Elevated

**In the US**, July's retail sales declined more-than-expected to -1.1% m-o-m (*c:* -0.3%; *p:* 0.7%), led by a decline in auto purchases, and a resurgence in COVID-19 cases that hit consumer demand. IP increased by 6.6% y-o-y in July (*c:* 7.2%; *p:* 9.9%), marking the fifth straight month of rising industrial activity, reflecting: *i)* a low base year; and *ii)* the ongoing economic recovery.

**In the EZ**, PCE headline inflation rose to 2.2% y-o-y (*c:* 2.2%; *p:* 1.9%); while core inflation fell to 0.7% y-o-y (*c:* 0.7; *p:* 0.9%).

**In Japan**, GDP growth rate for Q2 rose to 1.3% y-o-y (*c:* 0.7%; *p:* -3.7%), supported by an upturn in household consumption, business investment, and government spending, as both exports and imports increased further.

**In the New Zealand**, the RBNZ unexpectedly held its OCR at a record low of 0.25% during its August meeting, after the country was put into a snap COVID-19 lockdown. The expected rate hike is likely postponed to October or November.

Financial Markets: Stocks Fall; Fixed Income Rises; A Stronger USD Weighs on Commodities

**Market drivers:** investor sentiment weakened, driven by: *i)* the latest FOMC minutes that showed policymakers will likely start to reduce stimulus this year; and *ii)* worry over the rapid spread of the COVID-19 Delta strain.

**Global equities** fell w-o-w (MSCI ACWI, -1.8%, to 723). In the US stocks pulled back, and the S&P 500 Index fell (-0.6% w-o-w to 4,442); as: *i)* energy shares performed worst; while *ii)* gains in a wide range of health care stocks helped boost the sector. In the EZ, stock benchmarks pulled back (Eurostoxx 50, -1.9% to 4,148) amid: *i)* global concerns about the spread of the COVID-19 delta variant; *ii)* the situation in Afghanistan; and *iii)* slowing growth in China.

**Fixed Income:** w-o-w global bonds rose (BAML Global, +0.2% to 298.3) and UST yields fell slightly (-3 bps, to 1.26%), as: *1)* the spreading Delta variant contributed to a more uncertain outlook for global economic growth; and *2)* expectations of rising interest rates prompted volatility on world stock markets and boosted demand for the safe-haven debt.

**FX:** w-o-w, the US Dollar Index gained momentum (DXY, +1.1 %, to 93.496; EUR/USD -0.8%, to 1.170), the most in two months and hovered around its highest level since November 2020 benefiting from safety buying.

**Commodities:** Oil prices plunged (Brent, -7.7% to 65.2 USD/b), marking the longest losing streak since 2019, amid concerns about the economic recovery and fuel demand, due to: *i)* disappointing economic data from China; and *ii)* a stronger USD, due to Fed's pledge to cut stimulus this year. Gold prices rose (+0.1% to 1,781 USD/Oz) as safe-haven related gains were capped by a stronger USD.



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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



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