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Flash Macro Update (01/04/2019)

Financial markets needed a good set of economic data after the sharpest correction in the markets in the last 10 years and December non-farm payroll data was fulfilled that need. After China's 100 bps reserve requirement cut that provided some relief today, the US non-farm payroll data alleviated global recession concerns. Non-farm payroll increase in December in the US came in at +312k compared to the consensus of around +180k. Moreover, there were +58k upward revision in the last two months. Most impressive part of the report was that average hourly earnings rose by 0.4% bringing the annual increase to 3.2% in end- 2018 compared to 2.4% in end-2017.

One might think that the increase in the unemployment rate to 3.9% could be a source of concern, but it was mainly related to the increase in the participation rate from 62.9% to 63.1%. The data clearly shows that the recession concerns in the US are overblown for now. Nevertheless, that was not enough for market players. After the data, all eyes turned to FED Governor Powell's speech at the American Economic Association's annual meeting in Atlanta.

Sell-off in global financial markets intensified right after FOMC's 25bps rate hike and Powell's hawkish press conference on December 19. Powell this time delivered a dovish speech taking markets' woes into consideration. We think that Powell's speech combined with the reserve requirement action of China & US payroll data financial markets could enjoy some relief rally in the short-term but everybody including FED will continue to be data dependent.

Powell stated that the central bank will be patient in its approach to monetary policy. He added that the Fed is "listening very carefully" to the market. This was the message that financial markets were hoping to hear. Powell also highlighted that the Fed is always prepared to shift the stance of policy and to shift is significantly in order to achieve its dual mandate of full employment and stable prices. So, Powell delivered this time!

One million dollar question is what the FED will do at its March meeting. Current strong employment data indicates that it might hike, whereas none of the market players expect a rate hike. Considering the trade war between US and China, ongoing Brexit mess, US government shutdown, etc. we believe that the FED might not hike in March and it will continue to be data dependent. Meanwhile, it is worth noting that FED's next FOMC meeting will be held on January 29/30.

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