Week in review: Fed's Powell focusses on need for accommodation, Boe's Haldane hopes for post-lockdown spree

Jerome Powell reinforces the Fed's accommodative stance; in a week devoid of much in terms of tabled event-risk, US Federal Reserve Chair, Jerome Powell, set out his thoughts on monetary policy during an address to the Economic Club of New York. The Fed Chair towed the line in accordance with recent accommodative rhetoric, opining that "broad and inclusive" full employment ,as well as core inflation rates sustainably above the bank's 2% target, would need to be achieved prior to any changes in the current policy settings. He further stated that the US is "still very far from a strong labor market and that "patiently accommodative monetary policy is important". While many market participants will see the content as old ground covered in previous outings by the Fed Chair, it raises the question of what an acceptable level of unemployment might be in order for policy normalisation to be considered. Furthermore, the Fed's new long-run policy framework - allowing for low rates of unemployment and inflation overshooting - implies that any policy shift will come later than the market might anticipate. Under the previous framework, projections of unemployment rates below the estimated "natural" level of unemployment or inflation climbing above 2% may have been reasons for the Fed to hike rates.

US Inflation data staves off any further murmurs of normalisation in monetary policy; the Consumer Price Index rose, in line with forecasts, by 0.3% between December in January, dashing fears of a resurgence of price rises. The rise was largely attributed to the cost of food and energy.

The Bank of England's chief economist offers a hopeful message on recovery; writing in the Daily Mail on Friday, Andy Haldane, suggested that a sharp rebound in economic activity is due this year as the vaccine rollout gathers pace. He further posited that the sharp decrease seen in household expenditure, owing to the lockdowns, had resulted in an increase in savings of 20%, or around £250bn – a figure he believes will be earmarked to satisfy pent-up demand in the economy. The Bank of England has been fairly bullish in its recent estimates, despite recently cutting its forecast for growth in the first quarter of the year to take account of the third lockdown. The BOE forecast a 4.25% decrease in the economy between January and March, but offered a rosier outlook for the second half of the year as vaccinations allow the economy to return to brisk growth and eventually for the recovery to be complete by March 2022.

US employment data disappoints but doesn't move the needle; claimant numbers for jobless benefits in the US disappointed slightly having come in above expectations at 793,000, but still a welcome development following January's surge of 965k – the highest reading since August. This is consistent with marginal the improvements in the labour market that are to be expected in the absence of further fiscal spending or a broader re-opening of the economy.

Markets pause for breath; markets were largely in consolidation mode last week, with price action suggestive of profit-taking across a range of markets. Global equities remained perched below record highs seen in previous week's trading. Meanwhile, US 10 year Treasury yields showed little change on the week, rising just 3 basis points on the week to close at 1.19%. The Pound continued a six-week string of higher closing levels (when compared to the previous week), probing new highs to close out the week at $1.3849. The narrow trading range of just under two cents was characteristic of recent price action in the currency pair as GBPUSD managed a range of just 1.3681-1.3866 on the week, perhaps signalling a sense of trepidation on the part of market participants. The Euro meanwhile, appearing anchored around the $1.21 level since early December, maintained similar price action to previous weeks with the single currency having been unable to close the session substantially above $1.22. The price of a barrel of West Texas Intermediate crude oil meanwhile continued its upward momentum, rising to just above $58 on the week.