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A combination of US macro data and Fed Chair Powell's semi-annual testimony to Congress lends encouraging insight toward the US macroeconomic picture. It positions the Fed chair as continuing to emphasize arguments that inform the length of a pause before potentially returning to hikes rather than playing to any more dovish bias that is already priced into markets. What follows are brief remarks on Powell's testimony, US consumer confidence and the Richmond Fed's regional manufacturing gauge following the earlier US housing starts drop that should be looked through (here).

Powell And Data Are More Encouraging

- Chair Powell's opening remarks to the Senate Banking Committee testimony (here) generally sounded optimistic and played against market pricing for a rate cut. I believe it's the start of jawboning toward a return to Scotiabank Economics' forecast for two hikes over H2 that is likely to get more emphasis into the June and July FOMC meetings. Assumptions toward that path include expectations for rebounding higher frequency gauges of activity, a rebound in Q2 US GDP growth and a generally constructive view toward Powell's 'crosscurrents' including US-China trade negotiations that are proceeding well, Brexit that has diminished risk of an abrupt crashing out of the EU, and US debt ceiling developments that will need further time through Q2 to evaluate.

- **Specific language that indicates Powell is not courting rate cuts but is uncertain toward the length of a pause has been repeated in his statement:**

  > "...the extent and timing of any further rate increases would depend on incoming data and the evolving outlook..."

- **Also note that whereas the minutes to the January FOMC meeting mentioned the word 'downside' seven times, it did not appear once in Powell's opening remarks today.**

- **On balance sheet plans, I think it's worth re-emphasizing that the Fed isn't talking about potentially ending balance sheet run-off at year-end because of dovish considerations.** Rather, it's more about managing an excess reserves buffer. Here is the direct quote that reinforces this understanding:

  > "...with an ample supply of reserves so that active management of reserves is not required."

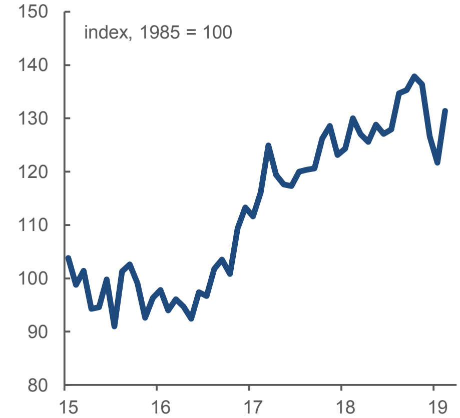
- Powell had previously explained that he think's reserve requirements will be lower than their padding, but they want a substantial buffer over this to avoid potential dysfunction in short-term rates and having to intervene to fine-tune reserves which could amplify volatility. So the changed information is with respect to their padding estimates, not their assumption on what reserves will actually be needed or the optimal size of the Fed's balance sheet. **It's about risk management to the base case rather than concern toward the base case forecast for required reserves.** It's much less about a negative, dovish signal. **Indeed, managing a reserves buffer that mitigates potential dysfunction in markets could make it easier to manage conventional policy through a return to rate hikes.**

US Consumer Confidence Rebounds

Actual: 131.4
Scotia: 123.0
Consensus: 124.9
Prior: 121.7 (revised up from 120.2)

- **US consumer confidence rebounded very smartly in February** and even after a small upward revision to January the February reading still jumped by about 10 points and exceeded consensus expectations by about seven points. That confidence readings are volatile and easily swung by current events like shutdown effects is amply evident here.
- This reverses about half of the December-January swoon (see chart). The other half will likely move up next month.
- Ditto for the expectations component that jumped by fourteen points to reverse just over half of the 25.7 point drop from the October peak through to January's revised reading and 27.8 points compared to the initial pre-revision reading for January.

US Consumer Confidence Rebounds



Sources: Scotiabank Economics, US Conference Board.

Rebound In US Richmond Fed Measure Drives ISM Uncertainty

Richmond Fed manufacturing Index, February, SA:
Actual: 16
Consensus: 5
Scotia: n/a
Prior: -2

- I'm not quite sure what to think for the next ISM-mfrg when it gets updated next Friday. Little changed would be a reasonable view. Regardless, a smart 18 point rebound in the Richmond's regional manufacturing gauge is welcome evidence.
- The issue is that the two most important regional gauges are conflicting. A 21 point drop in the Philly Fed metric into contraction territory was reported on February 21st is now met by an 18 point jump in Richmond toward expansion again. They are the two most informative measures for ISM-mfrg among the regional gauges that themselves leave an incomplete picture. For instance, the regional surveys under sample the autos sector and feeder industries.
- The rise in the Empire and Dallas regional surveys is slightly constructive toward ISM expectations. The small decline in Markit's manufacturing PMI is a mild negative but tracks ISM fairly poorly over time.