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**SHERY AHN, BLOOMBERG:**

Right, of course, we're also watching policymakers at the Federal Reserve market seeing whether a hike this month will be the central bank's last in this tightening cycle. Let's bring in Richard Clarida, a global economic advisor at PIMCO. He previously served as a Vice Chair at the Federal Reserve. Richard, great to have you with us. Good morning. You're joining us from our Singapore studio today.

**RICHARD CLARIDA, PIMCO:**

Good morning.

**AHN:**

So let me get started with what we're expecting from the Fed because it seems that that July rate hike is already baked in, but how carefully will you be watching the forward guidance and what will you be looking out for?

**CLARIDA:**

I agree with your assessment. I do think it's baked in. The Fed is in blackout now, so we won't have any commentary, but lots of Fed speak going into the blackout and everything tilting very much in the direction of getting this hike in July. The chair, of course, will have his press conference, and I think that's really where the focus will be at this meeting. I think the decision itself and probably the language in the statement is going to be pretty straightforward, but I would expect the chair to put his own stamp on his assessment of whether or not additional hikes will be needed. Of course, he'll want to reserve the option. Everyone always likes the optionality to do so. There's a lot of data between this meeting and the September meeting, a very important speech at Jackson Hole, so I don't expect a particularly hard lean to indicating a hike in September, but they'll want the options open, for sure.

**AHN:**

Richard, what did you make of the inflation numbers last week? Because as Fed Governor Waller himself said, one data point does not necessarily make a trend.

**CLARIDA:**

Well, I respect and know Chris Waller, worked with him, and on that point, I agree, but that said, I think there's more than just one data point. Some of the details in that report and in prior reports I think were encouraging. So I do agree, and I think, quite frankly, the Fed several times in the last several years, including when I was there, got burned when they looked at data that was improving and extrapolated that. So I think this committee will certainly be wary of declaring mission accomplished and victory, but clearly, they'd rather have data like last weeks than some of the numbers we were getting earlier in the year.

**HAIDI STROUD-WATTS, BLOOMBERG:**

Richard, do you see a soft landing as still being achievable, and how should bond investors be positioning at this point?

**CLARIDA:**

What I see is very achievable, and I've used this term before, is a soft-ish landing. What's the difference? In a soft landing, you actually disinflate and entirely avoid a recession. I think that will be tough to do, because I do think some modest rise in the unemployment rate, say to four and a half or so, will be required. And typically, when we get a rise in the unemployment rate like that, it's always been designated a technical recession. So I think a soft-ish landing with some slowdown in growth and some modest rise in unemployment is what the Fed is aiming to achieve, and I think they have a shot at doing that. But I think the important point for your viewers is that the Powell Fed will keep at it as they've said until the job is done, because ultimately, they want to return inflation back towards the 2 percent longer run goal.

**STROUD-WATTS:**

We saw Treasuries retreating after the U.S. consumer confidence search, right? Where do 10-year yields end the year? Can you give us an outlook on that and why, given the U-turns that we continue to see on rate hike bets?

**CLARIDA:**

Really since last October, so now about the last nine months, 10-year Treasury yields have been in a pretty tight range of four and a quarter to three and a quarter. You saw them approach the upper end of that range, and then of course with the CPI data and some other numbers improving. So I don't think I have a particularly strong view. I do think we're in a range for 10-year Treasuries until we get a decisive breakdown in inflation, and we start to get some good signals that the Fed may start to ease. Until then, I think this range of 3 and a quarter to 4 and a quarter will continue to hold.

**AHN:**

Richard, let's talk about China and what your takeaways are from all of your travels across Asia right now, because of course, the inflationary story playing out in that economy is so very different from other major advanced economies. So, how do you look at China from the investment perspective and where they're headed on their price growth?

**CLARIDA:**

Well, you're absolutely correct. Many folks, including myself, thought with the reopening in China that it would look in some ways similar to what we saw in the reopening in other countries, which was initially inflationary because demand exceeded supply. That's not been the case at all in China. Growth was strong in Q1. It's disappointed in Q2, and policymakers are talking about introducing measures to support the economy. I think they do want to hit their 5 percent GDP target, but yes, the China slowdown, especially in inflation, has been something of a surprise to me at least. And the fact that the policymakers are talking about adding support as well shows I think they're concerned about it as well.

**AHN:**

So, Richard, what are the global implications of where China is going?

**CLARIDA:**

Well, China is a huge part of the global economy, so a China slowdown obviously has implications for global activity, especially in tradable sectors. I was in Europe in the month of June and met with a lot of folks. And certainly there, many countries in Europe, for example, including Germany, have a lot of export exposure to China directly and indirectly. So, yes, it's a factor in assessing the global outlook for sure. Also the composition of Chinese growth is relevant as you look at global commodity markets. And the composition of growth this year has not been putting upward pressure on commodity prices.

**STROUD-WATTS:**

When it comes to Japan, it's getting more and more interesting, right? We're expecting

them to lift that inflation forecast in July. Do you see them tightening policy this month? And if not this month, do you have a view on when that could potentially happen?

**CLARIDA:**

Are you referencing Japan? Is that correct?

**STROUD-WATTS:**

That's right. The Bank of Japan.

**CLARIDA:**

Japan is under Abenomics and Kuroda’s leadership at the Bank of Japan. The explicit goal was not just to get inflation to two, but to get it above two to anchor expectations at that level. I think Kuroda succeeded in doing that. So far under Governor Ueda's leadership, it's really been continuity, not change. But I would expect, over time, I don't think anything is imminent. I would expect, over time, especially if inflation remains anchored close to this two percent level that they aspire to, that over time the BOJ will begin to make some adjustments in policy. But I don't think anything is imminent right now.

**AHN:**

Richard, the G20 in India this week, what are some of the geopolitical risks that PIMCO is watching?

**CLARIDA:**

Well, there's certainly enough geopolitical risk to watch. And we highlighted that in our most recent secular forum essay. Obviously you have a land war in Europe. You have tensions in Asia or at least incipient tensions in Asia. And so this is a precarious time in terms of potential risk. Our baseline view is that any extreme outcomes are really not the likely case. But as an investor, of course, you always have to be attentive to even low probability events. And we're fracturing those in as appropriate to our investment strategy.

**STROUD-WATTS:**

Richard, always great to have you with us and in Singapore today. Richard Clarida, the Global Economic Advisor at PIMCO and the former Fed Vice Chair, of course.