

## Fed hikes - puts a glossy spin on the economy

25bp hike was expected - but there are some worrying aspects of this meeting...ECB next



Source: Federal Reserve

### "Bob, I got a bad feeling on this one, alright? I mean I got a bad feeling!"

No prizes for googling the quote above from Oliver Stone's 1986 film, "Platoon", but this was what popped into my head immediately on waking up in the middle of the night and unable to fall asleep, sneaking a look at my phone to see what the Fed decision had been (I'm a 12-hour time zone away). For the house view, [please see the note](#) by my Developed Market colleagues.

More often than not, when your subconscious tells you something, it's a good idea to listen.

So how does my conscious-self rationalise this vague sense of foreboding this morning? This isn't going to be easy, because if it was so obvious, my conscious-self should already have figured it out.

The main thing that I think is nagging at my sub-cortex is the speeding up of rate hikes in 2019. The median FOMC view is now that this rises to 3.1% (so 3-3.25% in practical terms), above what the longer run projections of 2.9% (so 2.75% to 3.0%) that might be viewed as the equilibrium rate.

The slight overshoot of the longer-run value is not new. What is new is that this now happens earlier (in March this was not until 2020), and following four hikes (not three or four) in total in 2018.

In short, Powell has picked up the pace. To examine why, let's start with one of Powell's quotes from last night. The US economy is "...in great shape". That is a pretty unambiguous start.

But he follows this up with confusion over the lack of wages growth, despite the fact that "...The main takeaway is that the economy is doing very well. Most people who want to find jobs are finding them, and unemployment and inflation are low," This was, he said, a "puzzle".

Well, yes, it is different to how the economy normally evolved in previous business cycles. But maybe the old relationships on which Fed policy was based have changed, even if they still work after a fashion. Have you considered that Mr Chairman? At that point, the unemployment/wage-inflation trade-off that the Fed used to underpin all of its decisions with, may no longer give you right answers.

When I'm not sure what signals I am getting, like navigating through my apartment in the dark to avoid waking the members of my family that don't have to get up at 5:45am each morning, I tend to go slowly to avoid colliding with doors, furniture etc. Powell's approach to uncertainty seems to be to speed up.

Powell was equally dismissive of the impact of the brewing global trade war on the US economy. "Right now, we don't see that in the numbers at all. The economy is very strong, the labour market is strong, growth is strong. We really don't see it in the numbers. It's just not there". Although he then conceded that the Fed had heard of firms postponing investment exactly because of such fears. Hmmm.....is it there, after all, Mr Powell?

There are of course plenty of other aspects of the meeting we could fixate on - the decision to provide a press briefing after every meeting (it's not just me, this got a collective groan at the morning meeting today - central banks have no better idea than most of us what is going on in the economy, why do we need more of this?), or the technicalities of the interest rate on excess reserves, which was only raised 20bp to push the effective Fed funds rate back towards the middle of its range.

But in the end, I guess this all boils down to a barely concealed complacency that I find worrying in the face of so many domestic (Ben Bernanke's prescient Wile. E Coyote comments) and international (Trade war) uncertainties.

# 2.9%

## Fed's long run rate expectation

3.1% - where they expect to be at the end of 2019 (not 2020)

## ECB next - not complacent enough?

One thing you can't criticize the ECB about is complacency, indeed, they could do with being a little less cautious. But we anticipate some movement towards a taper of QE at today's meeting.

Things to watch out for:

1. Did the governing council discuss the taper?
2. If so, did they reach a decision on when this will start (September?)
3. And if so, did they come up with a decision on when it will end?

Markets will be disappointed if, after Peter Praet's comments recently, the answer to 1) is "No". And they will be rightly disappointed if the answer to 1) is "Yes" but 2) is "No", though this would be in keeping with the glacial pace at which most ECB decisions are taken. Whether this is September, though it another matter. Surely enough information has been obtained to enable the ECB to determine if the economy still warrants emergency QE support. To me, the answer is an unequivocal "Yes" it has. If so, why even wait until September? Start next month. As for when it ends though, there is more room for discretion. Date dependent policies (like the Fed dot projection - why have they not ditched that?) are less defensible than data dependent policies. So they might give an indication, but keep the exact date open. That would be fair.

A combination of positive responses to questions 2) and 3) could see the EUR appreciate against the backdrop of a Fed that is talking a very optimistic game, but if the stock market is any guide, is beginning to worry financial markets with their gung-ho approach.

## Author

### **Alissa Lefebvre**

Economist

[alissa.lefebvre@ing.com](mailto:alissa.lefebvre@ing.com)

### **Deepali Bhargava**

Regional Head of Research, Asia-Pacific

[Deepali.Bhargava@ing.com](mailto:Deepali.Bhargava@ing.com)

### **Ruben Dewitte**

Economist

+32495364780

[ruben.dewitte@ing.com](mailto:ruben.dewitte@ing.com)

### **Kinga Havasi**

Economic research trainee

[kinga.havasi@ing.com](mailto:kinga.havasi@ing.com)

### **Marten van Garderen**

Consumer Economist, Netherlands

[marten.van.garderen@ing.com](mailto:marten.van.garderen@ing.com)

### **David Havrlant**

Chief Economist, Czech Republic

420 770 321 486

[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

### **Sander Burgers**

Senior Economist, Dutch Housing  
[sander.burgers@ing.com](mailto:sander.burgers@ing.com)

**Lynn Song**  
Chief Economist, Greater China  
[lynn.song@asia.ing.com](mailto:lynn.song@asia.ing.com)

**Michiel Tukker**  
Senior European Rates Strategist  
[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

**Michal Rubaszek**  
Senior Economist, Poland  
[michal.rubaszek@ing.pl](mailto:michal.rubaszek@ing.pl)

**This is a test author**

**Stefan Posea**  
Economist, Romania  
[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

**Marine Leleux**  
Sector Strategist, Financials  
[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Jesse Norcross**  
Senior Sector Strategist, Real Estate  
[jesse.norcross@ing.com](mailto:jesse.norcross@ing.com)

**Teise Stellema**  
Research Assistant, Energy Transition  
[teise.stellema@ing.com](mailto:teise.stellema@ing.com)

**Diederik Stadig**  
Sector Economist, TMT & Healthcare  
[diederik.stadig@ing.com](mailto:diederik.stadig@ing.com)

**Diogo Gouveia**  
Sector Economist  
[diogo.duarte.vieira.de.gouveia@ing.com](mailto:diogo.duarte.vieira.de.gouveia@ing.com)

**Marine Leleux**  
Sector Strategist, Financials  
[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Ewa Manthey**  
Commodities Strategist

[ewa.manthey@ing.com](mailto:ewa.manthey@ing.com)

## ING Analysts

### **James Wilson**

EM Sovereign Strategist

[James.wilson@ing.com](mailto:James.wilson@ing.com)

### **Sophie Smith**

Digital Editor

[sophie.smith@ing.com](mailto:sophie.smith@ing.com)

### **Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

### **Adam Antoniak**

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

### **Min Joo Kang**

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto:min.joo.kang@asia.ing.com)

### **Coco Zhang**

ESG Research

[coco.zhang@ing.com](mailto:coco.zhang@ing.com)

### **Jan Frederik Slijkerman**

Senior Sector Strategist, TMT

[jan.frederik.slijkerman@ing.com](mailto:jan.frederik.slijkerman@ing.com)

### **Katinka Jongkind**

Senior Economist, Services and Leisure

[Katinka.Jongkind@ing.com](mailto:Katinka.Jongkind@ing.com)

### **Marina Le Blanc**

Sector Strategist, Financials

[Marina.Le.Blanc@ing.com](mailto:Marina.Le.Blanc@ing.com)

### **Samuel Abettan**

Junior Economist

[samuel.abettan@ing.com](mailto:samuel.abettan@ing.com)

### **Franziska Biehl**

Senior Economist, Germany

[Franziska.Marie.Biehl@ing.de](mailto:Franziska.Marie.Biehl@ing.de)

**Rebecca Byrne**

Senior Editor and Supervisory Analyst

[rebecca.byrne@ing.com](mailto:rebecca.byrne@ing.com)

**Mirjam Bani**

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

[mirjam.bani@ing.com](mailto:mirjam.bani@ing.com)

**Timothy Rahill**

Credit Strategist

[timothy.rahill@ing.com](mailto:timothy.rahill@ing.com)

**Leszek Kasek**

Senior Economist, Poland

[leszek.kasek@ing.pl](mailto:leszek.kasek@ing.pl)

**Oleksiy Soroka, CFA**

Senior High Yield Credit Strategist

[oleksiy.soroka@ing.com](mailto:oleksiy.soroka@ing.com)

**Antoine Bouvet**

Head of European Rates Strategy

[antoine.bouvet@ing.com](mailto:antoine.bouvet@ing.com)

**Jeroen van den Broek**

Global Head of Sector Research

[jeroen.van.den.broek@ing.com](mailto:jeroen.van.den.broek@ing.com)

**Edse Dantuma**

Senior Sector Economist, Industry and Healthcare

[edse.dantuma@ing.com](mailto:edse.dantuma@ing.com)

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

**Rico Luman**

Senior Sector Economist, Transport and Logistics

[Rico.Luman@ing.com](mailto:Rico.Luman@ing.com)

**Jurjen Witteveen**

Sector Economist

[jurjen.witteveen@ing.com](mailto:jurjen.witteveen@ing.com)

**Dmitry Dolgin**

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

**Nicholas Mapa**

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

**Egor Fedorov**

Senior Credit Analyst

[egor.fedorov@ing.com](mailto:egor.fedorov@ing.com)

**Sebastian Franke**

Consumer Economist

[sebastian.franke@ing.de](mailto:sebastian.franke@ing.de)

**Gerben Hieminga**

Senior Sector Economist, Energy

[gerben.hieminga@ing.com](mailto:gerben.hieminga@ing.com)

**Nadège Tillier**

Head of Corporates Sector Strategy

[nadege.tillier@ing.com](mailto:nadege.tillier@ing.com)

**Charlotte de Montpellier**

Senior Economist, France and Switzerland

[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

**Laura Straeter**

Behavioural Scientist

+31(0)611172684

[laura.Straeter@ing.com](mailto:laura.Straeter@ing.com)

**Valentin Tataru**

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

**James Smith**

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

**Suvi Platerink Kosonen**

Senior Sector Strategist, Financials

[suvi.platerink-kosonen@ing.com](mailto:suvi.platerink-kosonen@ing.com)

**Thijs Geijer**

Senior Sector Economist, Food & Agri

[thijs.geijer@ing.com](mailto:thijs.geijer@ing.com)

**Maurice van Sante**

Senior Economist Construction & Team Lead Sectors

[maurice.van.sante@ing.com](mailto:maurice.van.sante@ing.com)

**Marcel Klok**

Senior Economist, Netherlands

[marcel.klok@ing.com](mailto:marcel.klok@ing.com)

**Piotr Poplawski**

Senior Economist, Poland

[piotr.poplawski@ing.pl](mailto:piotr.poplawski@ing.pl)

**Paolo Pizzoli**

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

**Marieke Blom**

Chief Economist and Global Head of Research

[marieke.blom@ing.com](mailto:marieke.blom@ing.com)

**Raoul Leering**

Senior Macro Economist

[raoul.leering@ing.com](mailto:raoul.leering@ing.com)

**Maarten Leen**

Head of Global IFRS9 ME Scenarios

[maarten.leen@ing.com](mailto:maarten.leen@ing.com)

**Maureen Schuller**

Head of Financials Sector Strategy

[Maureen.Schuller@ing.com](mailto:Maureen.Schuller@ing.com)

**Warren Patterson**

Head of Commodities Strategy

[Warren.Patterson@asia.ing.com](mailto:Warren.Patterson@asia.ing.com)

**Rafal Benecki**

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

**Philippe Ledent**

Senior Economist, Belgium, Luxembourg

[philippe.ledent@ing.com](mailto:philippe.ledent@ing.com)

**Peter Virovacz**

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

**Inga Fechner**

Senior Economist, Germany, Global Trade

[inga.fechner@ing.de](mailto:inga.fechner@ing.de)



**Dimitry Fleming**

Senior Data Analyst, Netherlands

[Dimitry.Fleming@ing.com](mailto:Dimitry.Fleming@ing.com)

**Ciprian Dascalu**

Chief Economist, Romania

+40 31 406 8990

[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

**Muhammet Mercan**

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

**Iris Pang**

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

**Sophie Freeman**

Writer, Group Research

+44 20 7767 6209

[Sophie.Freeman@uk.ing.com](mailto:Sophie.Freeman@uk.ing.com)

**Padhraic Garvey, CFA**

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

**Tim Condon**

Asia Chief Economist

+65 6232-6020

**Martin van Vliet**

Senior Interest Rate Strategist

+31 20 563 8801

[martin.van.vliet@ing.com](mailto:martin.van.vliet@ing.com)

**Karol Pogorzelski**

Senior Economist, Poland

[Karol.Pogorzelski@ing.pl](mailto:Karol.Pogorzelski@ing.pl)

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

**Viraj Patel**

Foreign Exchange Strategist  
+44 20 7767 6405  
[viraj.patel@ing.com](mailto:viraj.patel@ing.com)

**Owen Thomas**  
Global Head of Editorial Content  
+44 (0) 207 767 5331  
[owen.thomas@ing.com](mailto:owen.thomas@ing.com)

**Bert Colijn**  
Chief Economist, Netherlands  
[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

**Peter Vanden Houte**  
Chief Economist, Belgium, Luxembourg, Eurozone  
[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

**Benjamin Schroeder**  
Senior Rates Strategist  
[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

**Chris Turner**  
Global Head of Markets and Regional Head of Research for UK & CEE  
[chris.turner@ing.com](mailto:chris.turner@ing.com)

**Gustavo Rangel**  
Chief Economist, LATAM  
+1 646 424 6464  
[gustavo.rangel@ing.com](mailto:gustavo.rangel@ing.com)

**Carlo Cocuzzo**  
Economist, Digital Finance  
+44 20 7767 5306  
[carlo.cocuzzo@ing.com](mailto:carlo.cocuzzo@ing.com)