

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

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic
420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

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

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

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

Karol Pogorzelski

Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

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

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com