US Fed raises lending rate, signals slower pace ahead

Despite Trump tirade, Fed reiterates independence

WASHINGTON: The US Federal Reserve raised the benchmark interest rate on Wednesday, staking its independence despite repeated attacks by President Donald Trump, but it also sent a clear signal it expects take it slow next year in the face of plateauing growth.

The Fed's fourth rate increase of the year, which sent Wall Street tumbling, moved the central bank squarely into the crosshairs of the president, who had said earlier a rate hike would be "foolish." Asked about the dangers of Trump's twitter rants disrupting decision-making, Federal Reserve Chairman Jerome Powell told reporters political considerations played "no role whatsoever" in the central bank's deliberations. In a unanimous decision, the Fed delivered on what some economists called a "dovish hike," raising the target range for the federal funds rate by 0.25 point, with 2.5 percent at the high end, while providing the clearest signal to date of a cautious stance moving forward, especially as it keeps an eye on potential international risks.

Despite generally healthy growth, Powell acknowledged the increased sense of caution due to "developments that may signal some softening, relative to what we were expecting a few months ago." "Growth in other economies around the world has moderated somewhat over the course of 2018, albeit still solid levels," he told reporters.

Since inflation has remained moderate, that allows the Fed "to be patient" in raising rates moving forward. And central bankers now expect just two increases next year in the key rate used to set the cost of borrow for everything from cars to homes. The less upbeat outlook sent shares tumbling and Wall Street closed down sharply, while the dollar advanced against the euro.

"Faced with political pressure from the president to stop raising rates and panic on the part of investors who were seeing their massive capital gains disappear, the Fed could have punted. Instead, it decided to continue trying to win the game," economist Joel Naroff said.

While he highlighted Powell's focus on solid growth prospects, Naroff said the markets may have wanted the Fed to keep rates on hold next year. "You would think that continued good growth and inflation under control would be good news for the markets. Wrong again."

International risks?

After the two-day policy meeting said the central bank said it "will continue to monitor global economic and financial developments and assess their implications for the economic outlook." The US is facing potential challenges from Trump's trade war, a slowing Chinese economy and the potential economic and financial turmoil that could come in the wake of Britain's exit from the European Union.

Increasing signs the US economy may have peaked have caused stock markets to crumble in recent weeks, with Wall Street wiping out all of its 2018 gains. The policy-setting Federal Open Market Committee also released its quarterly forecasts showing officials see economic growth moderating so that they now expect to increase the benchmark interest rate only twice next year rather than three times, as forecast in September.

Five Fed officials slashed their outlook for interest rates, and now expect two or fewer hikes rather than four or more in the coming year. The Fed's median forecast for GDP growth was cut to 2.3 percent for 2019 from 2.5 percent, which in turn brought the inflation outlook once again below the Fed's two percent target, even with unemployment remaining at a 50-year low of 3.5 percent next year.

Even with the continued strong job gains, wages have not accelerated, and prices have crept up only gradually, removing pressure on the central bank to put the brakes on the US economy.

WASHINGTON, DC: Federal Reserve Board Chairman Jerome Powell speaks during a news conference on Wednesday in Washington, DC. —AFP

Powell cautioned that the forecasts were individual views, not a definite plan for the Fed, and that officials would revise their assessments as new data came in. However, economists and analysts view them as a clear signpost for Fed action. "The change to the Fed's tone is a nod to the increased uncertainties, slower global growth, (and) lower inflation," said Mickey Levy of Berenberg Capital Markets. —AFP

BoJ maintains monetary easing policy

TOKYO: Japan's central bank yesterday maintained its ultra-loose monetary easing policy and said it was not looking for an exit strategy, even as the US central bank hikes interest rates. As the Bank of Japan continues its battle against deflation in the world's third-biggest economy, it vowed to keep short-term rates at minus 0.1 percent "as long as necessary" to hit its two-percent inflation target.

The bank is far from achieving this, with inflation currently hovering around one percent.

"We don't plan on looking for an exit strategy at the moment. It's too early to discuss its details," BoJ chief Haruhiko Kuroda told reporters after the decision. The BoJ has struggled for years to reach the two-percent inflation rate thought necessary to turbocharge Japan's economy, and has defended its decision to maintain its monetary easing even as other central banks tighten policy.

Thursday's BoJ decision came after the Federal Reserve hiked rates for the fourth time this year but signalled a slower pace of rate rises in 2019.

As for external risks, Kuroda said it is "necessary to carefully monitor moves related to protectionism including the US-China trade war".

"If the trade row continues for a long time, this could broadly affect the economy... But its impact on our country is limited," he added. "We should monitor various risks, but our forecasts that (the) Japanese economy will expand moderately will not be changed."

TOKYO: Bank of Japan governor Haruhiko Kuroda speaks during a press conference in Tokyo yesterday. —AFP

The bank has been criticized for the consequences of its policy, including concerns that its massive purchases of government and corporate bonds are skewing bond and financial markets.

In a nod to those concerns, it said in July it would seek to keep yields on the benchmark 10-year government bond at around zero percent. But there are no expectations that it will follow the lead of the US Federal Reserve and European Central Bank and move towards tightening.

In September, Kuroda said the bank had no plans to raise long-term interest rates "for quite a long time". —AFP

BoE holds rate awaiting Brexit deal

LONDON: The Bank of England has voted to keep its main lending rate at 0.75 percent faced with "intensified Brexit uncertainties", minutes of its latest regular monetary policy meeting revealed yesterday. As widely expected, the BoE's Monetary Policy Committee decided against lifting borrowing costs, also as tumbling oil prices help to push down inflation.

"Brexit uncertainties have intensified considerably since the committee's last meeting" on November 1, the minutes said. Since that meeting seven weeks ago, the BoE has warned that a no-deal Brexit could trigger a financial crisis in Britain, while the pound could plunge by as much as 25 percent. Meanwhile minutes of the latest meeting that concluded Wednesday said that "the further intensification of Brexit uncertainties, coupled with the slowing global economy, has... weighed on the near-term outlook for UK growth".

They added: "Business investment has fallen for each of the past three quarters and is likely to remain weak in the near term. "The housing market has remained subdued. Indicators of household consumption have generally been more resilient, although retail spending may be slowing."

British retail sales did rebound strongly in November, however, as shoppers bagged Black Friday bargains, official data showed yesterday. Total sales jumped 1.4 percent compared to October, the Office for National Statistics calculated, with non-food items helped by heavy price discounts.

That beat analysts' consensus forecast for a modest 0.3-percent increase.

Meanwhile with less than 100 days until Britain is set to officially depart the European Union, British MPs head off for Christmas, leaving a country in limbo with no divorce deal in place and total confusion over what happens next. "The broader economic outlook will continue to depend significantly on the nature of EU withdrawal, in particular: the form of new trading arrangements between the European Union and the United Kingdom; whether the transition to them is abrupt or smooth; and how households, businesses and financial markets respond," the latest BoE minutes said.

"The appropriate path of monetary policy will depend on the balance of the effects on demand, supply and the exchange rate.

"The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction," the minutes added. At its latest meeting, BoE policymakers voted also to maintain the central bank's quantitative easing stimulus policy, under which it has pumped £445 billion ($564 billion, 492 billion euros) around the UK economy. —AFP