Market surge continues on prospect of Fed rate cut

By Nick Beams
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The key question confronting the US Federal Reserve as it decides on its next monetary policy move, is not whether to accede to the ever-increasing demands of financial markets for a cut in interest rates, but rather, it is when to do it and how to devise some formula to avoid the perception that its much-fabled “independence” has been compromised.

The Fed will hold a meeting of its open market committee next week and it is unlikely it will announce a rate cut there. But a cut of 0.25 percentage points or even 0.5 percentage points is extremely like to be announced in July.

In a major speech last week, Fed chair Jerome Powell signalled his readiness for a rate cut when he dropped language used over previous months that the Fed would remain “patient” and declared it was monitoring the impact of the trade conflict on the US economy and would “act as appropriate to sustain the expansion.”

This was rightly taken as a clear message that if the trade and economic warfare measures of the Trump administration against China adversely impact financial markets, the Fed is ready to step in with a market-boosting cut in rates in order to sustain the largest bull-run in history.

Powell’s speech reflected the willingness of the Fed to turn on a dime in response to market demands. The minutes of the Federal Open Market Committee for May showed there was a consensus among officials to show “patience” on interest rates “for some time.” That patience appears to have lasted all of a month.

Following Powell’s remarks, markets roared ahead, with the Dow rising by more than 500 points on Tuesday. It shot up by a further 207 points on Wednesday, following private-sector employment data showing a drop in hiring activity, and then rose by a further 264 points on Friday after Labor Department data showed only 75,000 jobs were added in May—well below expectations and the rises of previous months.

Increases in employment for March and April were also revised downwards by 75,000. All this was music to the ears of the markets because it increased the likelihood of a rate cut by the Fed.

Overall the Dow has risen by1170 points in the last five days, an increase of more than 2 percent, following six consecutive weeks of losses, largely as a result of increased trade tensions and concerns over the impact they are having on the US economy. But with the Fed indicating it is ready to intervene, market expectations are that there will be two rate cuts over the next three months.

Highlighting the close connection between the markets and the Fed and the parasitic character of the rise, one financial analyst told the *Wall Street Journal* the markets were a “slave to liquidity, and when the Fed is accommodative, it’s a good sign for the markets.”

The Dow is now only 3.1 percent below the record high it reached last October and the S&P 500 is just 2.5 percent below its closing high reached at the end of April.

The prospect of further interest rate cuts in the US has also been fuelled by the move by other central banks to cut rates. Last week both the Indian and Australian central banks reduced their base rates, and the European Central Bank is also considering further financial stimulus measures in the face of slowing growth in Europe and internationally.

US president Donald Trump has again weighed in on the issue of interest rates. In a taped interview with Fox News broadcast on Thursday evening he repeated his early calls for a rate cut in order to boost the markets.

Without the rate increases carried last year, “the stock market would be up 10,000 points more, but now we have a very conservative approach," he said.

But his interventions are causing some headaches for the Fed over how to cast a rate cut. In an editorial on Friday, the *Financial Times* cautioned against the institution of a "Powell put"—that is the lowering of interest rates to boost markets when they are spooked by actions of the Trump administration. It was necessary for the Fed to provide clear communication of what was driving its policies with the accumulation of evidence over time rather than short term movements.

"The Fed may have to cut rates quickly perhaps more than once over the coming few months" it stated. But it was of paramount importance for the Fed to make clear that "it is reacting to the signal rather than the noise."

The same concerns were voiced by *Wall Street Journal* columnist James Mackintosh. He noted that central bank independence rests on a "shaky platform" and the Fed's is "especially wobbly." Cutting rates to compensate for the damage done to the US economy by tariffs would risk co-opting the Fed into Trump's trade wars and easing "looks like the Fed is caving into Mr Trump's public demands for rate cuts."

There is an important political and social dimension to the expressions of concern that the Fed does everything possible to preserve the fiction of central bank neutrality.

The experiences of the global financial crisis of 2008 and its aftermath, when the banks were bailed out to the tune of trillions of dollars, both through direct handouts and the pumping up of the financial system while the working class suffered the biggest hit to its living standards since the Great Depression, have seared deep into popular consciousness.

Interest rates cuts that are clearly recognised as a means of boosting financial markets and effecting a further redistribution of wealth to the financial oligarchs in the US and worldwide, while the attacks on workers' jobs and living standards are intensified, will only add to the greatest fear of all in ruling financial circles. This is, that the exposure of operations of the financial system as an institution whose sole purpose is to siphon wealth up the income scale will further intensify the already developing class struggle in the US and internationally.