# Is the Fed a driverless car?

Week Ending Friday June 15, 2018

Equities flat over the week, a touch weaker after the FOMC meeting but nothing dramatic. Trade war worries were around, especially during Friday but ended up having little impact.

The USD was stronger during the week, especially on Thursday, a fascinating day. The USD rose 1.5% initially due to much more dovish than expected ECB meeting that while confirming the end of QE also made it clear it would still be trying to keep policy bias towards easing. Rates were promised not to rise until at least late 2019 despite fears of an imminent rise, plus a promise to keep liquidity plentiful despite ending QE. This new news also led to weakness in GBP against the USD. The ECB news was followed up by much better than expected US retail sales, reinforcing the ECB news and causing another leg up in the the USD.

Although FX markets paid attention to this news US bond markets mostly appeared to notice it less. Bond yields, especially near term ones had been moving up before the FOMC meeting helped by a higher than expected reading for core CPI. Markets thus rightly anticipated that the FOMC would confirm a two more rate rises in 2018 versus one previously projected.

The retail sales news later in the week further pushed up short bond yields as you would expect. Trade tensions then dragged back longer yields but not short yields, thus causing the yield curve to flatten at somewhat lower levels – a bad sign as it implies the Fed is seen as somewhat blind to the impact on growth of trade wars.

**Fed seems on autopilot**

We have already covered the market's fear of a blindness at Powell's Fed to the impact of economic events and this was evident on Friday as trade war fears flattened the curve. The fear is that the economy is just not doing well enough to cope with economic shocks and the autopilot Fed tightening. Commodities had a very bad day too on those trade war fears as gold, oil and copper all fell back heavily.

**Data good, but good enough?**

That said the retail sales for May were unexpectedly good, hitting YoY growth as high as 6% under some definitions. PCE Expenditure, the driving force of nominal GDP, will surely show healthy growth in May too. These positive expenditure trends are being driven by positive trends in Average Weekly Earnings already reported earlier this month.

Industrial Production data for May may have been a bit of a disappointment, especially as the Manufacturing Production component growth fell back from its healthy recent YoY growth rate. However, the trend still seems upward as is confirmed by the June reading of manufacturing confidence from the Empire State survey.

This week sees lots of Fed speakers out and about after the FOMC meeting last week but little concrete economic news apart from surveys of current activity.