Fed under pressure to indicate cut in interest rates

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The decision of the US Federal Reserve's Open Market Committee (FOMC) on monetary policy, to be announced after a two-day meeting on Wednesday, will come under close scrutiny from financial markets, which are demanding continued action to maintain Wall Street's surge.

The FOMC is not expected to cut interest rates this week, although that remains a possibility. But there are increasingly strident demands for it to signal an interest rate cut for July, and further downward moves over the rest of the year.

Earlier this month, Fed chairman Jerome Powell set the financial hares running in a major speech, which the *Financial Times* described as a "thunderbolt," after he referred to the impact of "trade negotiations" between the US and China on Fed policy.

"We are closely monitoring the implications of these developments for the US economic outlook and, as always, we will act as appropriate to sustain the expansion," Powell declared.

In the context of US President Trump's continual railing against the Fed for setting interest rates too high, and increased pressure from financial markets for a relaxation of monetary policy to boost share values, this was taken as a signal that the central bank is moving in the direction being demanded.

In a television interview last week, Trump again claimed that, but for the policies of Fed chief Powell, the stock market would be up by an additional 10,000 points—a 38 percent increase on its present level—and gross domestic product would be 1.5 percentage points higher, "if we had somebody different in charge."

The pressure to cut rates and place even more wealth in the hands of the financial oligarchy has increased with the release of Morgan Stanley's Business Conditions Index. It showed a record decline for June. The index fell by 32 points to 13 from a level of 45 in May—the largest drop for a single month on record—to reach its lowest level since December 2008, during the global financial crisis.

Indicators, from services to manufacturing and new hiring, all fell, taking the index well below the level of 33 considered to indicate positive economic growth. A note prepared by the firm's economists pointed to a sharp decline in the Manufacturing Index, which fell "dramatically to zero." While this was possibly exaggerated by recent lower oil prices, it marked the "lowest level for the subindex on record."

The note said the fall in business conditions was "consistent with the slowdown in gross hiring reflected in the latest employment report for May," and raised the risk that "weakness in labour demand persists into next month's report."

The US economy generated only 75,000 new jobs in May, well below the consensus forecast of 185,000. The Morgan Stanley report said that, taken together with other data, "these indicators point to business expansion coming to a near halt in June."

On the trade front, tensions are rising. Considerable weight had been placed on the possibility that a meeting between Trump and China's president, Xi Jinping, on the sidelines of the G20 summit meeting in Japan at the end of this month, would lead to a lessening of the conflict. But the meeting has not been formally arranged and Trump has warned that if Xi does not take part, then tariffs of 25 percent on an additional $300 billion worth of Chinese goods will go ahead.

Even if discussions do not proceed, little of a concrete nature is likely to emerge. Speaking to the *Wall Street Journal* from Paris on Sunday, Commerce Secretary Wilbur Ross indicated that an enforcement mechanism for any deal—the issue on which negotiations broke down— would not be discussed.

"I think the most that will come out of the G20 might be an agreement to actively resume talks," he said. "At the presidential level they're not going to talk about the details of how do you enforce a trade agreement. The most that might come is new ground rules for discussion and some sort of schedule for when detailed technical talks might resume."

Ross said even real shooting wars ended with negotiations, and the conflict with China would ultimately end in negotiations, but "whether that will be in 10 minutes, 10 weeks, 10 months or longer, it's not possible to say."

The trade conflict is expanding beyond China. India has raised tariffs on US goods, including apples, almonds and walnuts, in retaliation for a decision by the Trump administration to remove its privileges, under a system of preferences to aid the economies of less developed countries. The decision has hit around $6 billion worth of Indian goods that were previously imported into the US duty free.

Trump has criticised India's protectionist policies and has been pushing for a new bilateral agreement to cover the $142 billion worth of trade between the two countries.

While it has been out of the spotlight in recent days, Europe is another target of the US trade war agenda. Last month, the administration suspended consideration of the imposition of tariffs on auto products on "national security" grounds for 180 days, to allow "negotiations" to take place.

That is something of a misnomer. The talks are taking place under the threat that if a bilateral deal is not reached, in which the European Union opens up its markets for US agricultural products, then the auto tariffs will be imposed with a major impact on the German car industry.

"They are worried," Ross told the *Wall Street Journal*. "Automotive is a very important industry here, most particularly for Germany. … I think they understand that at the end of the day, the administration's purpose is not to end up with a whole bunch of tariffs, it's to end up with agreements."

But the EU has insisted that agriculture will not be part of any new arrangement and that, contrary to US assertions, there was no agreement to put it on the table at the talks between Trump and European Commission President Jean-Claude Juncker last July.

The wheels are also in motion for the new round of tariffs against Chinese goods. This week, hearings will be held, where US companies and business groups can make submissions on the threatened tariffs measure. After that, they will have another week, until July 2, to provide comment and seek exemptions, following which the administration can act.

The office of the US Trade Representative is reported to have been flooded with submissions by companies that say they cannot obtain supplies of a wide range of consumer goods, other than from China.

Contrary to the continued assertions by Trump that China, not the US consumer, is paying for the tariffs, a coalition of business groups, including retailers Walmart, Target and Cosco, sent a letter to the president last Thursday, in which they estimated that current and proposed new China tariffs would raise costs for a family of four by an average of $2,000 per year.