Key question from today's policy meeting: Where the US Fed is heading?

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The eyes and ears of the financial world will be firmly focused on the remarks made by Fed chair Jerome Powell at the conclusion of the central bank's two-day monetary policy meeting today.

The firm expectation is that the Fed will hike interest rates by at least another 75 basis points with the probability of a 100-basis point rise at around 20 percent.

The key question arising from today's meeting is not the size of the increase but the future direction of the Fed's policy, as analysts and pundits comb through Powell's prepared remarks to the press conference following the meeting and his response to questions.

Further details have emerged about Powell's speech to the conclave of central bankers and financial officials at Jackson Hole last month. He made clear, contrary to expectations in some sections of financial markets that the Fed was about to ease back on its rate tightening, that it was determined to press ahead.

According to an article by *Wall Street Journal* writer Nick Timiraos, Powell scrapped his planned speech replacing it with "unusually brief remarks with a simple message—the Fed would accept recession as the price of fighting inflation."

Timiraos is well plugged into Fed sources. He was the channel for the leak that an earlier rise would be 75 basis points rather than 50 as had been previously signalled by the Fed.

The phrase "fighting inflation" is essentially a cover for the Fed's real agenda which is to contract the economy and drive up unemployment in order to suppress wage claims by workers trying to compensate for the biggest price hikes in four decades.

Powell and other central bankers know, and have publicly stated, that interest rate increases are not going to halt inflation. Rather, they are directed toward what they continually refer to as "tight" labour markets and the danger of inflation becoming "entrenched"—that is, the expectation by workers that prices will continue to rise and they must take action to prevent their living standards being even further eroded.

Powell's guiding light in imposing the Fed's agenda is former Fed chief Paul Volcker, appointed by Democrat president Jimmy Carter in 1979. He lifted interest rates to record highs in the early 1980s, as a central component of the Reagan administration's war against the working class which started with the mass sacking of 13,000 air traffic controllers in 1981.

Volcker described this decision as "the most important single action of the administration in helping the anti-inflation fight."

As Timiraos noted in his article, Powell referenced Volcker in his brief Jackson Hole remarks. "We must keep at it until the job is done," he said, invoking the title of Volcker's autobiography "Keeping At It."

The imposition of a recession to clamp down on wages is backed by other members of the Fed's governing body. Fed governor Christopher Waller has indicated the Fed would be comfortable with an unemployment rate of around 5 percent, rather than its present level of 3.7 percent.

Such as increase would involve significant job losses amid warnings that recessionary trends are gathering strength. Last week the logistics company FedEx announced it would close numbers of offices and park some of its aircraft because of the downturn in its business. Its CEO warned of a global recession.

In comments to the WSJ, Florien Ielpo, head of macroeconomics at an investment management firm, said corporate warnings suggest "we very well could be at the entry point of a US recession."

The financial markets are moving in expectation of further interest rate increases as bonds are sold off. This week the yield, or interest rate, on the 10-year Treasury bond—a benchmark for the US and global financial system—rose above 3.5 percent to reach its highest level since April 2011. [Bond prices and yields move in the opposite direction.]

The shifts in the two-year Treasury bond market were potentially even more significant. The yield on the two-year rose to a 15-year high of 3.94 percent, well above that on the 10-year which is contrary to the situation that prevails in "normal" times. Yield curve inversion is widely regarded as an indicator of recession.

Pricing in the futures markets, based on estimates of the direction of Fed policy, indicates a Fed base rate of 4.4 percent in early 2023. This is up from the previous prediction of 4 percent little more than a week ago, and well above the present rate of 2.25 percent to 2.5 percent.

There are other estimates of even larger rises. Economists at the Japanese financial firm, Nomura, expect the Fed rate to go to 4.5-4.75 percent, an increase of 0.5 percentage points from their previous estimate. The chief US economist at Deutsche Bank predicts the Fed rate going to as high as 5 percent.

Even larger estimates are being made. University of California professor Eric Swanson told the *Financial Times* that the Fed had not come to terms with how its rate needed to be raised and it could go as high as 6 percent. "If the Fed wants to slow the economy now, they need to raise the funds rate above [core] inflation."

Interest rate rises of these magnitudes will have a major impact on the working class in the US as job cuts, already under way, intensify and interest rates on home mortgages, now above 6 percent, will rise still further. This will put the purchase of a home out of reach for many working-class families and increase the repayments for those who have already taken out mortgages, potentially to the tune of hundreds of dollars a month.

Increases in the Fed rate will add pressure on central banks around the world to keep hiking. The Bank of England, whose governing body meets on Thursday, is expected to announce a rate rise of 50 basis points with the European Central Bank set to make a similar decision when it next meets.

The US rate increases are sending the American dollar higher with major ramifications for so-called emerging markets and developing economies. The depreciation of their currencies in relation to the US dollar boosts inflation via higher prices for imports such as food and energy.

Drastic interest rate hikes have already been made. The Argentine central bank has recently lifted its base rate to 75 percent to try to defend the value of the peso which has lost 30 percent against the dollar so far this year. Ghana has lifted its base rate by 22 percent, but the value of its currency continues to fall.

Such currency falls are widespread. The Egyptian pound is down 18 percent for the year, the Hungarian forint 20 percent and the South African rand 9.4 percent.

The rise in the US dollar increases the dollar-denominated debt burden of these countries. Speaking to the WSJ, Gabriel Stern, head of market economics at Oxford Economics said: "If you get more dollar appreciation, it will be the straw that breaks the camel's back. You're already getting frontier markets on the tipping point of a crisis, the last thing they need is a strong dollar."

But at this point there is no relief in sight. Former governor of the Bank of India, Raghuram Rajan, who complained about the strong dollar when he held that post, told the WSJ it was "early days yet."

"We're going to be in a high-rates regime for some time. The fragilities will build up," he said.