

August prudence

Federal Reserve president Jerome Powell withstand Donald Trump's pressures and at the same time is defining a new international role for Federal Reserve. Contrary to what Powell said at the beginning of his mandate (and to what he affirmed in Zurich), the American Central Bank can no longer focus only on the American economic trend, but should also consider global economy uncertainties, that reflect Trump's trade war. In July, this resulted in the first interest rate reduction since the 2008 financial crisis. For the Federal Reserve, a reduction of only a quarter of point is not a signal of the beginning of a recession phase, rather a "mid-cycle adjustment". Clearly Trump was expecting a more aggressive interest rate cut, since he believes that Federal Reserve should anticipate a possible

economy slowdown, and since inflation is stable, Powell must cut interest rates with more conviction. Being in a position of strength, US President fears an excessive dollar appreciation. Powell has basically said that he will sustain the internal economy (suspending the bond sale) and will intervene in international monetary policies, but he does not want to be Trump's instrument for the commercial policy. Trump's answer was immediate, threatening to tax other 300 billion of Chinese imports. In this context, China seems to be willing to inflame the trade conflict with the United States, letting the Chinese yuan breach the 7-per-dollar level. It is a clear sign that the trade conflict is moving to currency war, where the risks are greater. In August we should be more cautious.