

Weekly Cash Commentary

Views as of August 12, 2019



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Cloudy skies for Powell

The sun may be blazing across the U.S., but Federal Reserve Chair Jerome Powell would be wise to keep his sunglasses in their case. He is surrounded by murky data and hazy indicators. The biggest uncertainty is why the historic tendency for employment and inflation to move in similar directions has not been happening. Last week, jobless claims were low again and job openings continued to be substantially higher than hires. This strong labor market should boost inflation, but it has not. The latest disappointment came last week with a report that producer prices dipped in July. This gives more weight to the market expectations for another rate cut, although it appears the Fed would like to see more data. Public criticism by President Trump for not lowering the rates enough and the intensification of the U.S.-China trade war have only served to obfuscate Powell's vision further.

The short end of the London interbank offered rate curve (Libor) continued to fall last week, with the 1-month rate dropping from 2.23% to 2.20%, the 3-month rate decreasing from 2.24% to 2.18% and the 6-month rate falling from 2.13% to 2.05%.