Daily Energy Markets
VIEWS YOU CAN USE

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What do US economy data points tell us about future interest rate adjustments?

Earlier this year, the Fed hinted at the possibility of 5 or 6 rate cuts. It seems the Fed has reserved the right to diverge from its own guidance, opting for a data-driven approach instead. We're still witnessing near-record-low unemployment levels and given the objectives of employment and price stability, there seems little rationale for the Fed to decrease interest rates merely to appease oil or stock markets. With stable job growth and prices approaching stability, current interest rates appear to be at an optimal level. I'm inclined to view 3% as the new norm for inflation.

Has the Fed effectively lost some control?

Tax receipts are significantly trailing the surge in spending. Over the past 12 months, we've seen $2 trillion in debt issuance, a stark contrast to the 6% of GDP statistic previously observed, now ballooning to 7.2% of GDP. This financial landscape encompasses funding for initiatives like the Energy Transition, the Inflation Reduction Act, as well as financing for conflicts such as the Ukraine and Israel wars. From my perspective, the Fed appears to be the metaphorical boy with his finger in the dam, attempting to contain the looming threat of inflation. The question remains: will the dam hold? I find it unlikely that the Fed will implement more than one or two rate cuts before the upcoming election.

Europe appears to be leaning towards a rate cut in June?

Considering the broader macroeconomic landscape, additional stimulus in Europe seems imperative, particularly in light of the challenges faced by German industry and the ongoing efforts to revamp Europe's infrastructure for the Energy Transition.

Is there availability of capital for the required Energy Transition projects?

Europe does have the option to generate Euros, akin to the US's practice of printing dollars. Europe has generally pursued a more conservative rate policy, and they may have greater flexibility to enact decisive rate adjustments compared to the US, potentially without igniting significant inflationary pressures. The question remains: will Europe look to Washington for guidance or forge its own path? ■

**Paraphrased Comments*