EFFICIENT GROUP

ECONOMIC COMMENTARY

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Newsletter

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US ECONOMIC SUCCESS AND TURKISH PRESIDENTIAL FAILINGS

We start this week with the recent announcement by the Federal Open Market Committee (FOMC) of the United States (US) Federal Reserve, Fed for short. Led by Fed Chair, Jerome Powel, the FOMC announced that the US economy will likely grow by as much as 6.5% during 2021, the fastest expansion in the US for more than 40 years. During their December FOMC meeting, the Fed anticipated that the US economy would only grow by 4.6%. But the rate at which the US economy and their trading peers are opening, given the recent successes in vaccine rollouts, has led to a sharp correction. Currently, the US is vaccinating roughly 2 million Americans each day, and this should result in herd immunity around July of this year.

Another reason for the noteworthy adjustment made by the FOMC is the gigantic amounts of monetary and fiscal stimulus which US law- and policymakers have pushed into the system. In fact, following the announcement that Biden's $1.9 trillion fiscal relief package was accepted, the Organisation for Economic Co-operation and Development (OECD), an intergovernmental economic organisation, announced that the outlook for global growth has also improved. The OECD increased their forecast for 2021 growth to 5.6%, up 1.4% from their December value. On that point, Biden's administration is preparing a $3 trillion government spending plan to prop up infrastructure and reduce inequality, as well as the country's carbon emissions. Their aim is to improve productivity, which infrastructure spending usually does, and collect the necessary funding by taxing corporates and the rich.

Considering all this good economic growth news, the FOMC was quick to add that they would not be increasing interest rates until 2023. This was announced as an attempt to calm investor's fears. Interest rate increases are a natural follow-up to an improving economy where inflation starts popping up. But higher interest rates mean debt is more expensive. Expensive debt means economies have less to spend and prop-up equity prices, amongst others. The FOMC therefore held firm that they would not allow inflation to go beyond the upper limit of 2%, which they expect to see by the end of 2021. Investors appreciated the sentiment and we saw an ease in market volatility and a slow decline of long-dated US Treasury yields.

This week we end with news from Turkey. Turkey was once again in the hot seat this week when the country's president Recep Tayyip Erdogan, once again, fired the head of their central bank. This sent both their local market and their local currency, the lira, into a downward spiral. Naci Agbal was appointed in November 2020 and aimed to improve the bank's credibility among global investors. A task he accomplished by increasing interest rates by some 8.75%, including last week's unexpected 2% increase. Although these increases helped to make the lira the best carry-trade currency this year, it angered president Erdogan, who maintains that high interest rates, and not his government's dismal performance, would hurt the economy and the people. Agbal's successor, Sahap Kavcioglu, is a university professor and a columnist at a pro-government newspaper and has been a frequent critic of the interest-rate increases.

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