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YOUR WEEKLY ECONOMIC UPDATE

24 March 2021

US ECONOMIC SUCCESS & TURKISH PRESIDENTIAL FAILINGS

Our main story this week is the recent announcement by the Federal Open Market Committee (FOMC) of the United States 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 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 are vaccinating roughly 2 million Americans each day and they should have 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 lawmakers and policy-chiefs have pushed into the system. In fact, following the announcement that Biden's $1.9 trillion fiscal relief package was accepted, the 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 $3 trillion government spending plan to prop up infrastructure and reduce inequality and 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, attempting 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, which means economies have less to spend and prop-up equity prices, amongst others. The FOMC therefore held firm that they would 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.

Turning to some other news. 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 sending both their local market and their local currency, the lira, into a downward spiral. Naci Agbal was only recently 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 governments dismal performance, would hurt their economy and their 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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