

Fed Independence: No Trump Cards to Play

- The fact remains that the **Trump Administration's attempts to undermine Fed independence**, and eventually credibility, may be **one of the most spectacular acts of self-sabotage**.
- True enough, the **Department of Justice serving grand jury subpoenas** – suggesting criminal investigations – **on Fed Chair Powell prompted adverse “Sell America” trades, undermining USD and US Treasuries**.
- To be fair, the **episode was mild**, with losses in both USD and USTs fractional, as **markets probably believe this is an act of threat that will blow over**.
- And likely **assuaged further by both Republicans and Democrats stepping in to defend Fed independence**.
- But that's simply **no room for complacency** given any damage to Fed independence pose **dire consequences** and **cannot be easily undone**.
- The upshot is that **Trump must now be demonstrably hands off** as there are **simply no Fed “Trump cards” that the Administration may play without undue self-harm**.
- First and foremost, the **Fed is already aligning with lower rates**, albeit *backed by economic evidence and growing concerns of non-linear jobs risks*.
- **Whereas unwelcome Trump provocations** merely **undermine policy efficacy** – lifting long-end yields and exacerbating de-dollarization.
- What's more, **unrelenting pressures to cut despite 75bp of rate cuts in quick succession** smacks of structural **intimidation** (not just policy disagreement).
- The *consequent chills on Fed independence invoke fears* of a Fed that is **not merely politicized***, **but irredeemably subordinated**.
- *And the danger from this policy independence relinquished spiralling into unmoored inflation amid acute currency debasement fears*.
- It is **outcomes**, and **not just empty actions**, **matter for policy**.
- So, best to do away with the Administration's **misguided chest-thumping/bullying on rate cuts that fail to transmit** to longer-end rates or **worse, perversely in higher-long term rates**.
- Instead, an **independent Fed**, whose *actions* are *based on examination of economic evidence and policy robust debate*, **ensure optimal results** aimed at **longer-term growth underpinned by price stability**.

* The distinction here is that a merely politicized Fed may still have the capacity/capability to course correct if inflation outcomes are undesirable. Whereas a subordinated Fed has no scope for such autonomy.

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