



By: *Emre Alkin*

To Lower or Raise Interest Rates: That's the Problem



The news coming from the United States and Japan suddenly caused adverse winds to blow in the markets. However, I would like to underline that there is a missing point in the comments and evaluations about the difficulties faced by the US Economy. At the moment, we don't have much evidence or arguments to discuss a recession.

Of course, I also acknowledge this: It is normal for any issues in the US economy to create negative expectations. As for the reason:

First of all, the US transfers funds to the countries it runs a trade deficit with in some way. Through QIZ or preferential trade agreements, the US makes a kind of dollar transfer to its trading partners by buying goods or services from them.

The countries that allow the US to sell goods to them without quotas or tariff barriers benefit greatly from this. All this money flow is carried out based on a political strategy. American Foreign Trade moves directly in line with American Foreign Policy.

The US accounts for almost one-third of world consumption and a quarter of total global imports. Those who sell goods to America make money as long as Americans are satisfied with their lives. Additionally, American companies in China and the Far East mostly sell what they produce to America. The US is the world's largest importer.

Unemployment is always a problem

Moreover, the US Government and citizens do not worry about running a trade deficit. Because the final goods imports of the US, one of the countries with the largest population in the world, are essential.

Therefore, I have always smiled at comments like "US trade deficit at a record level, US economy in a difficult situation." Describing a flagship like the US with a European perspective would lead us astray.

The reason for Americans becoming unemployed is not the factories in China, but America starting to fall behind in the competition

It should be well known that the important thing is for the American economy to be strong enough to make consumer goods imports. Based on this, I can say that Trump is not speaking entirely correctly, and whatever he promised is a product of imagination. The reason for Americans becoming unemployed is not the factories in China, but America starting to fall behind in the competition.

Americans do not approach inflation, growth, foreign trade, current account balance, and unemployment data like Europeans. Low or high inflation is not a concern, but unemployment is always a problem.

The growth of the trade deficit is remarkable, but a decrease in growth causes more panic. The share of exports in National Income is almost half that of many developing countries. Nevertheless, the US is the world's second-largest exporter.

The US will not give up the lion's share of global capital

Therefore, the unchanging reality for those who have been following the US economy for a long time is this: the US will not give up the lion's share of global capital. Those expecting an early interest rate cut from the Fed are highly likely to be disappointed. The intense interest shown in US treasuries before and after Black Monday proves this claim.

Therefore, saying "It would be against the interests of the US if the Fed does not cut interest rates" would be a historical mistake. On the contrary, keeping interest rates at this level in the US is creating a significant inflow of resources to the country, so even a cut in September could be premature.

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The disturbances in the Eurozone and Japan lead investors to turn to the US, which is more guaranteed than emerging countries. Especially, it is not easy to bring money to countries in regions that have turned into fireballs due to conflicts. Wherever money trusts the most, it will go there.

In summary, without fully analyzing the paradigm shifts of this century, one cannot interpret appropriately cause and effect relationships. The possibility of the Fed cutting interest rates before the end of the year is certainly strong. However, we must consider that conditions are constantly changing.

We saw what happened to Japan after they raised interest rates. They realized that they would be at great risk if the yen continued to appreciate. They announced that they would not touch interest rates again until the markets calmed down. However, they were responsible for wiping out nearly \$2 trillion from the markets. Have they learned their lesson? I don't know.

Poorly calculated market interventions

What struck me the most is this detail: Why did the world's richest people switch to cash by losing billions of dollars? The portfolio managers or fund managers of these people must be in contact with each other.

What happened that made them sell their shares and move to a safe haven as if they had taken an oath not to return for a while? This detail shows that only half of the foam created by "carry trade" and the abundance of money has been taken. Perhaps, there is more to come.



Those waiting for the Fed to cut interest rates must be a little more patient - Emre Alkin

If this is the case, all evidence points to it, those waiting for the Fed to cut interest rates must be a little more patient. In Japan, it will take a long time for another interest rate hike to be made.

Because investors like the "cheap" yen and do not want this situation to change. Poorly calculated market interventions cause significant damage when the possibility of hot conflict is so strong.

In conclusion, the treatment to be given to the critically ill patient must be done calmly and well calculated. It is not possible for the Fed to make a harsh move while the market is accustomed to abundant money and high interest rates.

In the Far East, interventions to prevent the devaluation of national currencies are undermining exports. We are moving in a very delicate balance, so the doctor must also be delicate.