Article Review

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**WSJ Survey: Most Economists Say Fed's Next Move Is Rate Cut**

**Article Overview**

There was a wide expectation among several economists that the next move by the Federal Reserve would be to cut down on interest rates. This was expected to be done by the end of the year. Out of the surveyed economists, roughly half said in May that the next Fed rate would be a cut in the form of the adjustment. The number of economist behind these expectations is varying. The Federal Reserve has kept its benchmark between 2.25% to 2.5% since December but was expected to cut this benchmark down to show that they are willing to take action. According to Gregory Draco, an economist for Oxford Economist the economy right now can be considered at a good place and the Federal Reserve is at a good place to lead the country a slowly increasing rate of growth and is in power to not let it tip into another recession. But there are some facts that they need to consider. These are the rising concerns regarding global manufacturing which is leading to a decline in the job market. The problems in the US housing and its effects on the economy. The possible effects of another trade war with another country could bring about more trade risk. Taking all this in consideration the Federal Reserve needs to keep the spectre of rate cuts a possibility in the near future.

Regarding the cuts on Federal Reserve fund rates, it was expected the fall in rates would be around 2.12% and 1.96% and this will be in 2019 and 2020 as well. According to Robert Fry, if the Feds wait any longer they will have to cut down rates even more. So according to him, it is expected that the rates will be cut twice in this year and will be kept steady next year. Taking into factors such as rising trade wars and trade, limited growth and indications of the stagnant growth of the USA economy, the Feds are in discussion to cut down rates as soon as possible. According to Fed Chairman Jerome Powell, the Federal Reserve is closely monitoring the situation regarding the rising trade contentions and the risks that come along with it and are preparing themselves to act according to the situation to sustain any effects generated. So it is expected by the traders that in the futures market there is a high probability of a 2.25% rate cut at the June 18-19 meeting of the chairpersons of the Federal Reserve. Furthermore, it is expected that the chances of a rate cut are around 86% at the maximum at their July 30-31 meeting (Davidson, 2019).

**Opinion/Analysis**

The increasing tensions between the USA and China are massively affecting the economy of not just the country itself but the global economy as well. The global community’s fears are rising due to the implications these trade wars are creating. Due to the trade war between China and the USA, global rate and activity recovery are seriously being hindered. This rise in protectionism could have material impacts on global trade and output. If the USA put tariffs on foreign products then other countries will retaliate as well as increasing volatility in product prices in the global economy. Under these circumstances, it is imperative that the Federal Reserve cut down their rates within this year because there is no indication when this conflict might get resolved. So in accordance to this, they need to act as soon as possible to deter any harmful impacts on the economy of the USA and the global economy in general (Quaglietti, 2018).

If the Federal Reserve keeps its interest rate at a high benchmark then it will definitely affect the stock prices of the company. The higher the rate the lower the growth in business and manufacturing would be seen. This lower growth will affect the profitability and the stock price of the company. Another implication is that the bank would lend to the business at a higher rate while keeping their deposit rates lower. Taking this into consideration the federal reserves need to lower their interest rates as soon as possible as this will be harmful to the economy for the country.

Another cause of concern is how these high federal fund rates are leading the country to another housing crisis. Primarily mortgages are of two forms such as fixed rate and adjustable rate and their interest rates are dependent on the inflation in the country. Now the Feds have a large role to play in forming expectations regarding inflation. This is because the market perception regarding a bond and how well the inflation associated with the bond is being controlled by the Federal Reserve. This control is done by how the short term rates administration determines the long term interest rates, for example, take the yield of a US treasury bond with a useful life of 10 years. So by setting the current short term rates by the Feds, the market anticipates what the long term interest would be for any bond. So if the Federal Reserve's keeps the interest rates as high as they are they will inevitably lead to miscalculation of the interest rate of bonds in the long term. This will make their valuation either higher or lower than what they originally are worth. So the interest rates on adjustable rate mortgage vary over different periods= and these types of mortgages will be directly affected if the Federal Reserve keeps a high-interest rate making forecasting of the value of mortgages pricy and prone to high amounts of error. This will become the cause of concern and can become a reason for the emergence of another housing crisis in the USA. This will not only be detrimental for the USA economy but will adversely affect the global economy as well.

**Relevance to International Financial Management**

The Federal fund rate does not directly affect the international financial management but its management of one of the largest economies of the world makes its actions impactful on the global economy. This is because the different countries in this world, their economies and the financial management system are interlinked with each other and have become a global community in a sense. So if any action taken in one country could either adversely or positively affect the economy of another country. In the case regarding the expected cut in federal fund interest rates will have impacts on the international financial management system

The USA Federal Reserve is also considered the monetary superpower of the world. This allows it to have the power to set monetary conditions on a global scale and is also the main producer of safe assets in the global market. If the Federal Reserve does not cut down its interest rates it will inadvertently affect the USA standing in the financial world (Beckworth & Crowe, 2016).

The rise in Federal Fund rates in the USA has led to an increase in interest rates in other countries such as Malaysia, Indonesia and Hong Kong. This is mostly done in retaliation of the high rates currently in place by the USA government (Temesvary, et al, 2018). If the Federal Reserve does not cut down its interest rates within this year or at its next meeting the demand for USA products abroad will decrease and will eventually increase the already high trade deficit that they are facing. In fact, there is a high chance that the Federal Reserve is not even considering its role in the international financial management turmoil that they are creating.

**References**

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