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TAKING A HIKE; A NEW FED CHAIRMAN STEPS IN

After several years of keeping the federal funds rate near zero, the drama around meetings of the Federal Reserve's Federal Open Market Committee (FOMC) has increased and garnered more attention. With hints of impending inflation, and unemployment numbers looking much better, the stage has been set for more intervention by the central bank.

The variables that the Fed watches, and often acts on, have seen changes, and with economic improvement, often comes an economy that might be improving too fast.

The Fed uses several "tools" to help keep the economy healthy and raising the benchmark rate is just one of them.

On March 21, 2018, after their FOMC meeting, the Fed announced a quarter point rate increase. The news immediately affected the markets, causing some intra-day volatility. The news out of the meeting was mostly positive though, with an expectation of some manageable inflation and affirmation of a growing economy.

It is anticipated that interest rates on revolving credit and home loans will go up as a result. This follows strong increases in existing home sales in recent months. This rate hike was the sixth during this current cycle of rate hikes, increasing the federal funds rate from near zero to a range of 1.5-1.75 percent.

The Federal Reserve's target inflation rate is 2 percent. They also have an objective of maximum employment. Those are just two variables monitored by the Fed that influence their policies.

New Chair to Watch

This recent FOMC meeting was the first since Jerome Powell's confirmation as the new chair of the Federal Reserve. The positioning of the Fed is seen as more hawkish currently as he anticipates a couple of more rate hikes this year.

The news out of the meeting reinforced the Fed's previous guidance that they anticipated three rate hikes during all of 2018.

Powell addressed the House Financial Services Committee on February 27, 2018. The public comments of the chair of the Fed, along with the results of FOMC meetings, often impact government bond yields and the stock market .

Next year could see a more aggressive approach, with the Fed forecasting an additional three rate hikes in 2019. The

Fed's current projection is that the federal funds rate could stand at 2.9 percent by year end next year.

What this all means for savers is that there should be some incremental increases in savings account interest. On the flip side, those who carry debt should also see an increase in rates as well. Since U.S. consumers added $92 billion in new debt in 2017, and the average credit-card interest rate is already 16.8 percent, the impact of the Fed hikes will sting those who carry ongoing debt.

What happens when the central bank meets can impact all Americans. With a strengthening economy, there are new concerns that can arise. The Federal Reserve monitors these changes and attempts to take actions that will counteract them. For now, both the actions of the Fed, and the stock market, have returned to more of a "normal" state of reality.

A DOLLAR ISN'T ALWAYS WORTH A DOLLAR

The U.S. economy has been mostly strong, with moderately good wage increases, GDP and factory output improving and unemployment continuing to fall. The only area of real concern has been an uptick in volatility seen in the markets since the first of the year. What flies more under the radar for most Americans is what happens in the international currency markets.

The value of the U.S. dollar fluctuates against other world currencies. These fluctuations have consequences in both positive and negative ways. These fluctuations even effect precious metal prices, causing the value of the dollar to have a reverberating impact globally.
Just as English has been considered the world's language for business, the dollar has traditionally been considered the reserve or global currency. For that reason, it is accepted for trade around the world. The dollar makes up 64 percent of all central bank foreign exchange reserves.

Since 2009, China and Russia have called for a new reserve currency that is not directly connected to any one nation. For nearly two years, the Chinese renminbi has been another world currency. As another strategy, China would like its yuan/renminbi to replace the dollar as the leading global currency.

Federal Reserve Polices Impact the Dollar

Strength in the U.S. economy provides relative strength to the dollar. As the Federal Reserve increases interest rates, as it is doing currently, it makes the dollar more expensive to borrow. That decreases the money supply. As Treasury Secretary Steven Mnuchin recently said, a weak dollar can be good for the U.S. referring to trade. On the other hand, when the value of the dollar drops, it costs more to purchase commodities.

Since commodities trade globally, buyers outside the U.S. purchase U.S. products with dollars. When the dollar drops in value, it provides more buying power, requiring less of other currencies to purchase each dollar.

Some in the financial services community worry that tariffs, and a potential trade war, could be a negative for the dollar. They believe a protracted trade war could cause

the dollar to lose some of its status as a reserve currency. This would make other reserve currencies look more attractive.

In a survey of 66 fund managers, 42 percent believed that actions by the Federal Reserve and other central banks would play a bigger role in the strength of the dollar this year than trade conflicts.

In the short term though, the announcement of additional tariffs caused the stock market to tumble while simultaneously helping the Japanese yen.

The dollar index — symbol DXY — which has been mostly down since it peaked in mid-December of 2016, has rebounded slightly since mid-February. During the past year, it is down nearly 10 percent.

The U.S. Dollar Index is an index of the value of the dollar against a basket of the currencies of our trading partners. The index began in 1973 at 100.00 and peaked in early 1985. Some investors speculate on the direction of the index. The influence of interest rates, GDP and potential trade riffs will all move the index.

Beyond the index, many investors use ETFs that invest exclusively in foreign stocks, in order to take advantage of the strength of foreign currencies. This provides a hedge against the dollar when it is weaker.

What the future holds for the dollar is not predictable. For now, it remains the most important currency in the world.

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