Rising economic risks, but Fed likely won't tweak bond-buying for now

REUTERS

The big slowdown in US jobs growth last month and the surge in COVID-19 cases signal more hurt ahead for the world's largest economy, but those rising risks aren't likely to trigger a rush by the Federal Reserve to ramp up or shift its bond-buying when policymakers meet later this month.

While they may offer guideposts for how their bond-purchase plans may unfold in the months ahead as they continue rounding out a new operating framework laid out in August, their hesitance to do more now boils down to three factors:

Financial markets broadly speaking aren't in trouble, or signaling skepticism about the Fed's commitment to keeping rates low for years to come.

Households and businesses that are in trouble need grants, which the Fed can't provide, not lower borrowing costs, which is what the Fed already has delivered.

And to top it off, Fed policymakers say, the rapid spread of the virus means now is not the time to ramp up stimulus.

"I am not opposed to more accommodation," Chicago Federal Reserve Bank President Charles Evans told reporters on Friday. But it won't be until springtime, with the vaccine rollout underway and more clarity on the economic outlook, that "we'll be able to make the judgment as to exactly what the pace of asset purchases should be, what the duration that we might want to think about taking out should be, and issues like that."

His comfort with the current policy setting was echoed also this week by San Francisco Fed President Mary Daly and Dallas Fed President Robert Kaplan.

Evans said he did not "necessarily see a need" even for new guidance on asset purchases, but that down the road something "much bigger" might be required to get inflation to the Fed's target.

Even with no change to its policy setting, the Fed is delivering a tremendous amount of stimulus to an economy battered by the coronavirus and still struggling to recover from a historic recession. A government report Friday showed US employers added the fewest jobs in November since the labor market began its recovery in May.

The Fed slashed interest rates to zero in March, and has vowed to keep them there until the economy returns to full employment and inflation reaches 2 per cent and looks set to rise moderately faster than that for some time.

Policymakers expect it to take several years to meet that trio of tests, during which time businesses and households will be able to count on borrowing cheaply, which in turn should boost hiring, investment and spending.

The Fed is also buying $120 billion in Treasuries and mortgage-backed securities each month, more than it did in response to the financial crisis.

For weeks, analysts have suggested the Fed may ease policy further by buying more bonds or skewing the purchases to longer maturities so as to exert stronger downward pressure on longer-term borrowing costs.

A rise in virus cases and an impasse in Congress on fiscal stimulus would drag on growth, the thinking went, forcing the Fed to respond.

This week, as fiscal talks rekindled, some analysts speculated that a sharp rise in bond yields could nudge the Fed into action.

To UC Berkeley Haas School of Business professor Amir Kermani, who has studied how the Fed's bond-buying programs work, it just doesn't make sense.

Financial conditions are easy, with the yield on the benchmark 10-year Treasury note below 1 per cent.

In addition, he said, shifts in monetary policy often have their biggest impact on the real economy months in the future.

That's just about the time when widely available vaccines may unleash a surge in economic activity as people take long-delayed vacations and book tables again at fancy restaurants.

"It's not that hard to imagine that doing more QE (now) is going to make it harder for the Fed to manage both inflation and financial stability once the recovery starts," Kermani said.

That's not to say Fed policymakers won't do anything at their next meeting on Dec. 15-16. Minutes from their last meeting suggest they may soon give clearer guidance on how long they'll continue to buy bonds, and under what conditions they would rev up, or pare back, asset purchases.

Some 10.7 million out-of-work Americans face a cash squeeze, particularly with pandemic unemployment benefits set to expire at the end of the month.

But overall, US households have excess savings of about $1.4 trillion, estimates University of Oregon professor Tim Duy. Once people feel safe enough to spend that, it could be a good thing for a Fed intent on putting upward pressure on prices.

"This is the best set-up for inflation we've had in a decade," Duy said.

And at that point the Fed may see its biggest task not to tamp down on inflation but to convince markets it will stick to its plan to keep rates low in the face of rising prices. Doing more with its bond-buying program at that point may be just the ticket.

REUTERS/FILE

The US Federal Reserve building is seen in Washington, DC.

India plans to allow relinquished coal-fired plants to sell power

REUTERS, *Bengaluru*

India's power ministry proposes letting coal-fired power plants keep selling power after completing their agreements with buyers, a letter seen by Reuters shows, despite national promises to close old plants to curb pollution.

The proposal, if approved, would help old coal plants earn additional revenue, increase liquidity in short-term power markets and help distribution companies in states facing a power deficit access cheaper power, the ministry said in the draft proposal dated Friday.

"It is in the consumer interest to keep the tariff of electricity as low as possible," says the letter sent to power departments of India's states and the heads of federal government-run utilities such as NTPC Ltd.

Such a move would enable federal-run electricity generators such as NTPC "to sell power in any mode" after distribution companies exit an agreement upon the completion of the tenure, the ministry said.

Power Minister R.K. Singh and Finance Minister Nirmala Sitharaman have previously said they plan to shut old coal-fired power plants. The environment ministry has also pushed for shutting down coal plants, which account for 80 per cent of India's industrial pollution, if they do not comply with green laws.

The outcome remains unclear. The power ministry has sought comments from the states and the heads of federal government-run power generators. A final decision on the proposal is not imminent.

A senior power ministry official said on Sunday only inefficient plants would be shut down.

"Cost-effective utilities that provide cheap power will still be allowed to operate. Small, inefficient plants will be shut down," the official said.

Distribution companies operated by states such as Punjab, Delhi, Andhra Pradesh and Odisha want to surrender power allocated by federal government-run utilities after the plants complete 25 years, the power ministry said.

REUTERS/FILE

Chimneys of a coal-fired power plant are pictured in New Delhi, India.

Biden could struggle to thaw Sino-US frost: investors

REUTERS, *London*

A Joe Biden presidency may not mean an instant thaw in US-China relations, but a more predictable policy approach than under the Trump administration should be better for investment, investors told a Reuters summit.

The US president-elect has already said he will not immediately cancel the trade agreement that President Donald Trump struck with China or take steps to remove tariffs on Chinese exports.

Many of the same issues that stoked friction between the two world powers under Trump's presidency will fester, such as protecting intellectual property and US manufacturing jobs, said Shannon Saccocia, chief investment officer of Boston Private.

"Whether it's a Trump administration part two or a Biden administration, those concerns remain the same, and we have a very split electorate here in the United States and those voters sit at the nexus, at that tipping point," Saccocia said at the annual Reuters Global Investment Outlook Summit, 2021.

"In order to continue to engage those not only in 2020, as we've seen, but in the mid-terms in 2022 and into 2024, you can't lose that block as they've increasingly become the deciding factor in US elections."

Lufthansa will have shed 29,000 staff by year end

REUTERS, *Berlin*

Lufthansa will have shed 29,000 staff by the end of the year and the German airline will cut another 10,000 jobs in its home country next year as it struggles to cope with the coronavirus, a newspaper reported on Sunday.

The airline and its subsidiaries, Eurowings, Swiss, Austrian and Brussels Airlines, have slashed their schedules, fleet and staff, with air travel not expected to recover to pre-pandemic levels before 2025.

Citing unnamed company sources, the Bild am Sonntag newspaper said that Lufthansa would cut 20,000 jobs outside of Germany, while it is also selling its catering unit LSG, which employs 7,500 people, bringing the total staff down to 109,000.