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Expert Commentary

Rob Carnell, Chief Intl Economist at ING Commercial Banking on US Economy and Dollar

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Rob Carnell
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Janet Yellen told last week that a rate hike in December is a "live possibility," depending on economic reports in the coming weeks. However, citing weak global growth and a still-fragile US economy, some policymakers recently advocated waiting until next year to sidestep the risk of derailing the recovery, especially while inflation remains well below the Fed's 2% annual target. What is your opinion on the matter? Do you think an interest rate increase would be more reasonable now or only next year?

I would say that now it would be more reasonable. I believe the conditions certainly support a rate increase particularly at the moment, and that officials support an increase for some considerable time.

Goldman Sachs economists determined that after an economic expansion picks up momentum, its odds of survival tend not to vary much from year-to-year. The data suggest that based on age alone, the probability the US economy avoids a recession for another four years is 60 %. Economists see an only 10-15 % chance the economy slides into a recession in 2016, despite some warning signs, such as elevated corporate credit yields. Do you consider them to be right?

I believe the probability that you have given of about 10% sounds a recession is broadly right. I think you can actually make a case that removing an orthodox monetary policy to zero interest rate policy, which has been in place for many years now, could actually be somehow beneficial. I suppose that household says "I'm a corporate sector", and I do not share the view that this has been a particularly helpful policy in recent years. In my opinion it is time to get rid of it.

What will be the major drivers for the USD and what are your short- and long-term forecasts for EUR/USD and GBP/USD until the end of 2015?

The major drivers are going to be the differential between the Fed and the ECB policy. In the short term, obviously, that is very supportive for the Dollar with the Fed tightening and with the ECB looking to implement some more easing. However, as we move into next year, I think the degree to which the Fed tightens further is going to be limited, since parts of the economy are already under pressure, in particular, the manufacturing sector. Likewise the European Central Bank's justification for further easing next year is going to looking extremely challenged by the continuation of the upturn in activity, following an employment rate pickup in credit growth and a rise in headline inflation. Thus, we could see quite a sharp reversal of that currency trend before them.

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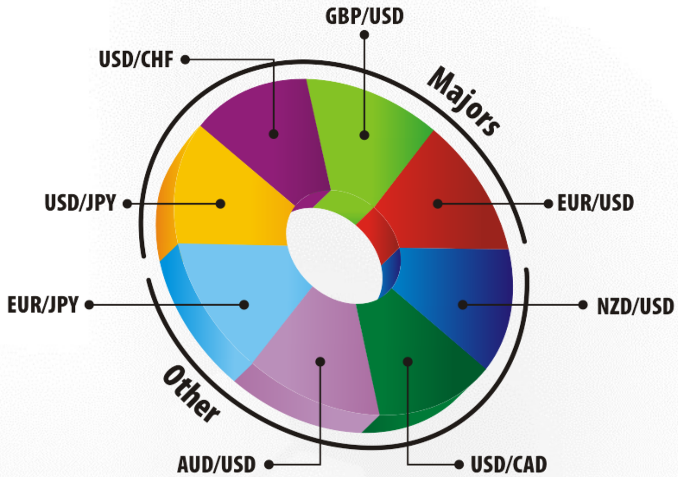

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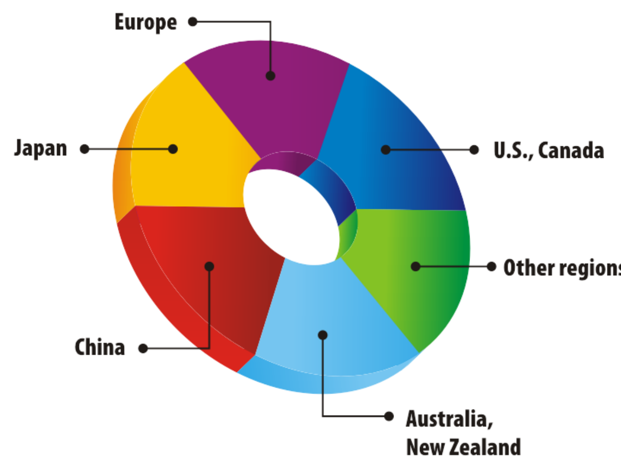

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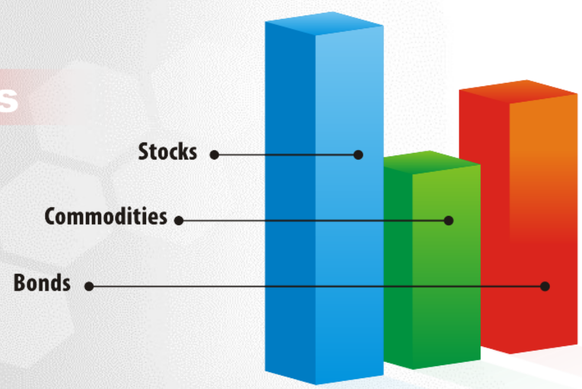

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