Bora Bariman
Managing Partner
Hormuz Straits Partnership

The Fed has set autopilot in a general direction.

It is finally pushing back against inflation, and the economic data does make it appear to be a sustainable strategy given the relatively strong employment figures. The effective Fed funds rate is around 1.5% compared to a rate in 2019 of 2.5%. So, if they raised it 100 points, you would still have just been back to a normal situation at a point when we don't have normal inflation. If the Fed is going to step in front of the inflation cycle, they need to weigh on the aggressive end of the hikes, but they're also clearly concerned about a strong and deep recession. They want to create a soft, shallow recession. What they're trying to do is create the expectation that rates could get high and that they are committed to these 75-point hikes. They're giving themselves time to get there because there's that gap between the effective Fed funds rate and inflation at 9%. However, while the US can take a 0.75% hike, the European Central Bank is impeded, primarily because of the sovereign credit profile of countries like Italy and the geopolitical energy uncertainty for Europe. That's why the euro has been pulled down to parity with the dollar and these dynamics won't change for some time.

Have we seen demand destruction kick in yet?

The Consumer on the street is experiencing a real affective decline in purchasing power and they can't offset it with putting their money in the bank and earning interest and also can't be investing in any other real asset class right now – gold, silver and copper are all down year on year. It's proving difficult to avoid the pain of the erosion of the value of their assets. ■

**Paraphrased Comments*

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