US Fed to hike again but hints at 2019 pause

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- **The Fed's mandate is not protect stock market investors but to maximize employment**

Washington, United States

Federal Reserve Board Chairman Jerome Powell

The US Federal Reserve is likely to raise interest rates in the coming week but policymakers have begun to signal they may take it a bit slower in 2019.

Waning growth, a trade war, tame inflation and an increasingly scary geopolitical scene mean the central bank could make clear they plan to slow or even pause the current tightening cycle -- instead taking a wait-and-see approach until the economic picture becomes clearer.

Since October, Fed officials have watched Wall Street take a wild ride, alternately diving and rallying as public remarks from Chairman Jerome Powell and others veered between indicating gradual hikes would continue or pause.

In recent days, economists have begun to cut their forecasts for the number of rate hikes they expect next year to just one or two from as many as four.

Fed officials in September forecast three increases but that could be revised as well in the new projections to be released Wednesday.

At last month's meeting, members of the Fed's rate-setting Federal Open Market Committee argued they should signal they were close to the end of the cycle by deleting the words "further gradual increases" from post-meeting statements.

That would mark a significant shift in the Fed's messaging of the last three years that maintained a steady drumbeat telling markets to expect "gradual adjustments" to rates.

But economists say the Fed is keenly aware of the specter of slowing growth in China and Europe, a chaotic British exit from the European Union, political turmoil in France and Italy's budget woes.

In the United States, job growth has remained strong this year but inflation has settled at the Fed's two percent target, despite fears the strong economy might ignite prices.

Add to this the fading boost from recent tax cuts and government spending, and expectations US growth will slow, and the future can seem highly uncertain.

"I share the notion that things are not quite as strong as they looked a few months ago but we don't know anything very definitively," former Fed vice chair Alice Rivlin told AFP.

"I think they're saying, 'We'll be very careful and we'll play it how we see it.'"

Changing expectations allows the Fed to pause without roiling financial markets with a surprise move.

Wall Street and the Fed

As of Friday, futures markets put the probability of a rate hike this week at 81.8 per cent -- still high but well below virtual certainty predicted by the betting money ahead of other meetings this year.

"I don't think the Fed is trying to manage that probability number," said Gary Stern, former president of the Minneapolis Federal Reserve Bank.

The Fed's mandate is not protect stock market investors but to maximize employment at sustainable levels while keeping a lid on inflation.

Nevertheless, stunning gyrations on equities markets can worry policymakers, because an outright crash can sap consumer and business confidence, making households and companies cut spending, which is never good for GDP growth.

Wall Street crumbled from record heights in early October after the Fed chairman said benchmark interest rate was "a long way" below neutral -- a rate that is neither stimulating nor restraining growth -- suggesting steady rate hikes would continue.

But Powell changed his tune just a few days later, saying the key policy rate in fact was "just below" neutral, suggesting it need not rise too much higher, and that led to a stocks rally on November 28.

"I think they'll be watching carefully what pushes the markets, not because the markets per se are important to them but because the markets are the way monetary policy is conveyed to the rest of the economy," said Donald Kohn, who was the Fed's vice chairman from 2006 to 2010.

Other signals that a pause is increasingly probable have emerged.

Amid another day of plunging stock prices, *The Wall Street Journal* reported December 7 that the Fed was considering whether "to signal a new wait-and-see" approach, news that helped calm jittery investors.

Other Fed officials have voiced caution, including Dallas Fed President Robert Kaplan who said the central bank should be "really patient" in raising rates.

Economist Diane Swonk of Grant Thornton says the Fed will call for "a more flexible trajectory."

"We have lowered our own forecast on rate hikes to two next year," she wrote in an analytical note, but like other economists noted that the central bank decisions will depend on the economic data.

"The Fed will pivot quickly -- if need be -- to rate cuts."

Traders work on the floor at the closing bell of the Dow Industrial Average at the New York Stock Exchange

A revolution not without risk

The recent diplomatic dust-up over Chinese telecoms company Huawei, one of the leaders in developing equipment for fifth-generation mobile networks, has demonstrated that this technology which promises to enable an internet of things and self-driving vehicles also poses risks

Deliverance or disappointment?

The promises are always hyped, but the delivery is often a disappointment. Early buyers of 4G smartphones were often let down: their handsets could handle nippy speeds but the backbone of networks were often not yet bulked up to handle the higher data flow.

Operators have now built up the capacity of their backbone networks, but if 5G is to keep its promise the number of base stations needed is enormous. Otherwise, users will be forced back onto slower networks.

Meanwhile operators are having to invest billions to roll out 5G, which is an issue because competition in many countries has hemmed in prices companies can charge consumers.

While most analysts believe operators will in the end be able to finance building the new networks, they may not initially be dense enough to handle some of the most anticipated applications.

Building a dense network of base stations along highways to handle self-driving vehicles will be a costly endeavour, for example, and operators may find themselves seeking partners from users of new services.

What is 5G?

5G stands for the fifth generation of mobile network technology, which should begin to be rolled out in 2020 in Asia and the United States.

Each generation has offered improvements in data transmission speed and capacity, and with 5G the networks are really set to make the transition from telephony to other objects.

What will it be able to do?

The much vaunted internet of things has so far been hobbled by the limitations of mobile networks, both in terms of transmission speeds of handsets and the fact the backbone of networks hadn't been expanded sufficiently in many cases to handle huge volumes of data.

With 5G, transmission speeds should accelerate sufficiently to allow for self-driving cars to take to the roads or for doctors to conduct operations remotely.

It will also cut the cord on augmented and virtual reality.

The ability to connect more sensors will help make many services "intelligent", such as helping manage traffic flow and telling the sanitation department when garbage bins need to be emptied.

Industry is in particular looking forward to 5G to reinvent manufacturing and allow it to monitor all sorts of processes.

Why does 5G pose security risks?

The first reason is that more data and more types of data will be travelling across 5G networks. Much of the data transmitted by sensors could be sensitive, such as information about manufacturing processes that business rivals would be interested in acquiring. Or the data from our homes that could be gleaned to determine all sorts of things about us. The treasure chest of data for hackers is getting much, much bigger.

A second reason is that an increased reliance on the mobile network means its disruption would have even more serious consequences, both in terms of safety and economic activity. A failure during a remotely guided operation could lead to the death of a patient or a crash of a self-driving car. A longer outage could disrupt an economy. This poses national security risks.

While the diplomatic spat over the arrest of Huawei's chief financial officer was based on accusations the firm violated US sanctions on Iran, the United States has longstanding concerns about Chinese telecommunications equipment being a Trojan horse for Beijing's intelligence and military.

Huawei is a major manufacturer of equipment used to build 5G networks, and the US defence establishment fears it could enable it to disrupt American military communications or otherwise wage asymmetrical warfare in a confrontation.

The United States has essentially barred use of Huawei equipment in domestic networks, as have Australia and New Zealand, with other countries considering following suit.