

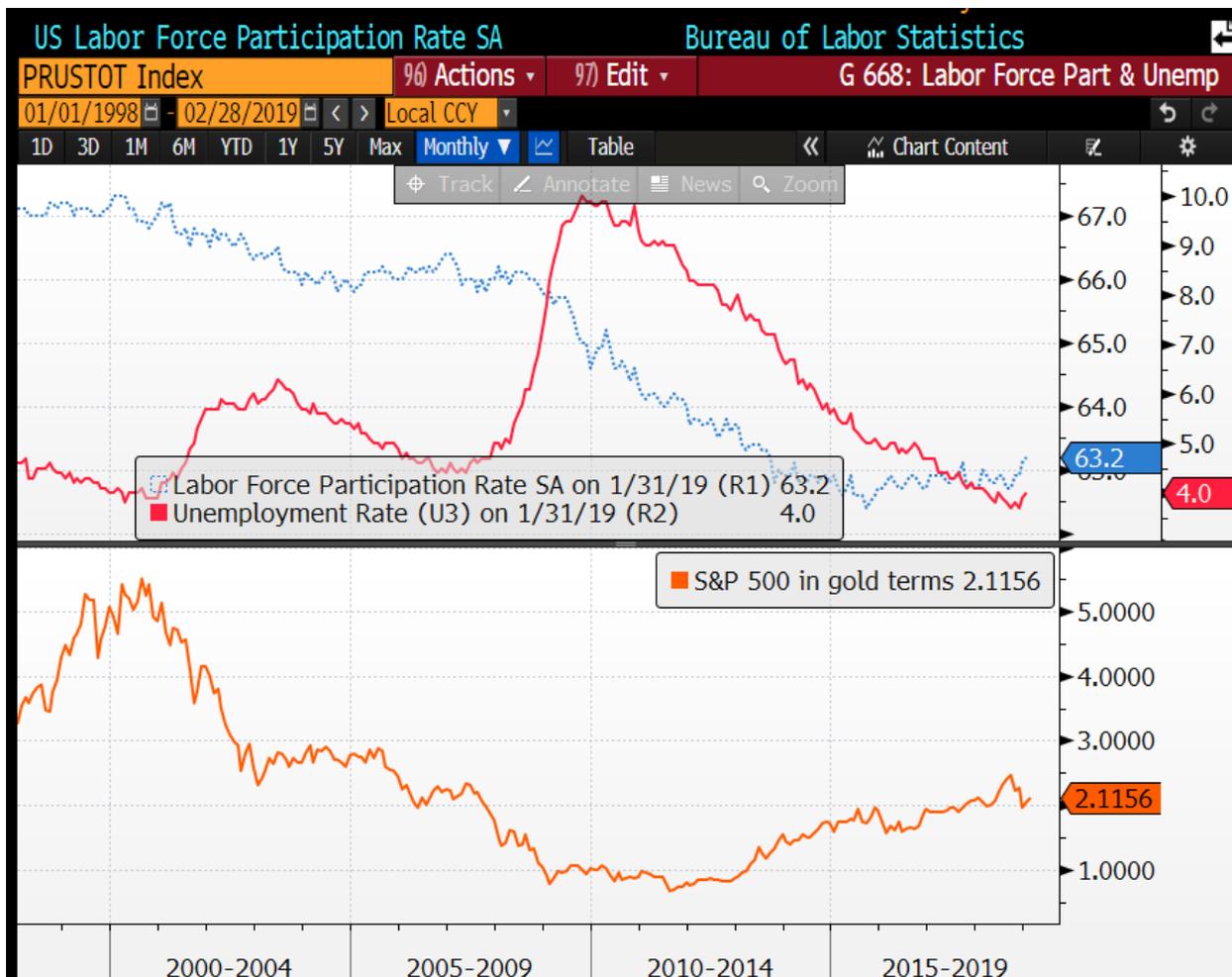
Washington Hearings: Powell, Lighthizer, Cohen

Humphrey-Hawkins Hearings: Powell Not Asked About Rates? During the past two days of Humphrey-Hawkins testimony by Fed Chairman Powell on Capitol Hill, not a single question on the direction of Fed funds rates emerged. Not one legislator even asked Powell to define the so- called “neutral rate.” It’s almost as if an unreported memo made its way to both sides of the aisle: “Powell will not be raising rates this year. Please don’t ask him about it.”

The Senate hearing on Tuesday was mostly a snoozer.

Powell maintained a clearly dovish demeanor as he kept returning to the issue of the Labor Force Participation rate, as if a rising LFP rate was the key to spreading prosperity.

Long-time FedWatchers likely remember Janet Yellen as recently as 2014 championing the low level of LFP (relative to pre-financial crisis times) as evidence of labor market “slack” that warranted a lower-for-longer posture with rates.



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If the LFP rate has now become Powell's refuge from fielding the questions of - senators or congressmen on why he is no longer advocating higher rates, we'll take it.

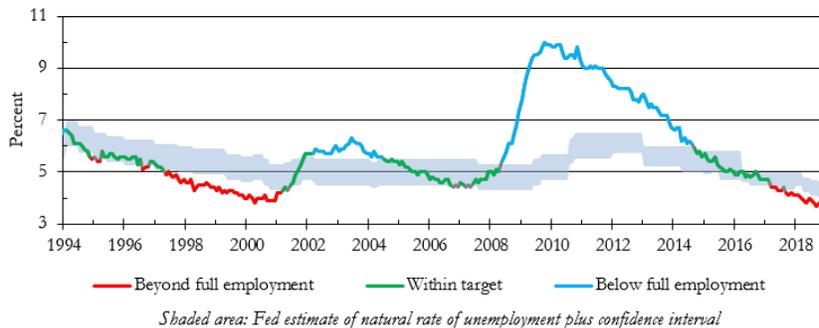
Wednesday's hearings were only a tad livelier. The best highlight was Denny Heck's questioning.

The Washington Democrat started with the anti-Phillips Curve question, "When will America get a raise?" He then asked Chairman Powell directly, "Are you willing to let wage growth climb to 4%, either to begin to recover some of the decline that we've experienced, or labor share of income, or alternatively, an idea that I don't think is discussed often enough, to see if tight labor markets themselves can improve or boost productivity? Are you...willing to let wage growth hit 4 percent?"

Powell's response was, "We're really targeting price inflation, not wage inflation." Wages should equal inflation plus productivity, he added. But that's nonsense, as FOMC concerns about rising wages go in the same bag as the ridiculous alarm at falling unemployment, rising job quit rates, and all other signs of a "tightening labor market" that prompt rate hawks to go on the offensive.

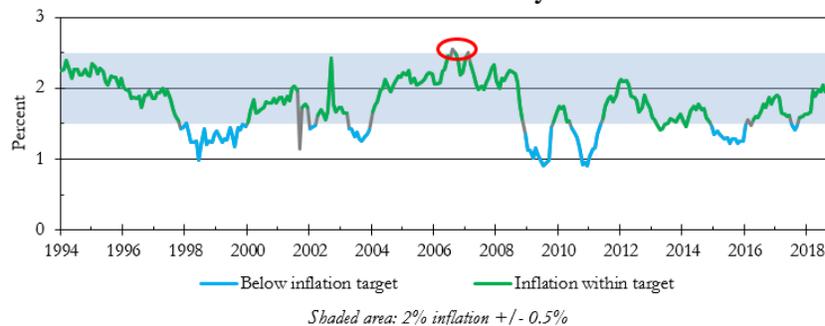
Heck persisted, referring to historical charts of the Fed's record with "full employment" and "price stability" going back to 1994. We include them below:

Full employment



<i>Economy's performance relative to employment mandate</i>	
Overheating	80 months
On target	116
Underperforming	105

Price stability



<i>Economic performance relative to price stability mandate</i>	
Overheating	2 months
On target	213
Underperforming	85

From Heck's point-of-view, the persistent undershooting of "inflation" has translated into virtually zero wage gains for decades. Powell would not answer Heck's final question,

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“...When are we going to get wage growth that begins to compensate for years and years of decline?”

Lighthizer Hearings: Not Just a Soybean Solution. US Trade Representative Robert Lighthizer spoke in a cautious tone on US-China talks, at one point telling the House Ways & Means Committee, “I’m not foolish enough to think that there’s going to be one negotiation that’s going to change all of the practices of China or our relationship with them.”

But he made clear that without President Trump’s push on the issue, the US would likely not be as far along as it is in discussions with China about how to address complaints and alleged abuses in the bilateral trade relationship.

Democrats on the committee were united on making sure the Administration does not stop at simply a “soybean solution,” meaning just winning agreements from Beijing to buy more US soy and ag products in exchange for a pause on tariff increases.

But Lighthizer made a compelling argument this is not at all the goal and that, even more, any agreement will include post-deal check-ups with his Chinese counterpart.

Asked about Treasury Secretary Mnuchin’s currency agreement, which Mnuchin touted as the “strongest ever,” Lighthizer said, “There’s no agreement on anything until there’s agreement on everything. But the reality is we have spent a lot of time on currency, and it will be enforceable.” The current pause in tariff increases is expected to last about 60 days after March 1, though no hard date has been set.

Cohen Hearings: Hits Dossier Allegations. Speaking before the House Oversight Committee, President Trump’s former attorney, Michael Cohen, served up several hours of testimony. Following his opening statement, in which he admitted to committing felonies “for the benefit of, at the direction of, and in coordination with” President Trump, he faced relentless Republican attacks.

It may not matter much that a known perjurer was accusing Trump of directing him to commit felonies, but Washington Examiner columnist Byron York noted that Cohen’s testimony also dispelled a bunch of rumors (some salacious) circulating around the President. Most important, Cohen shot down the “Trump dossier” allegation that he traveled to Prague in 2016 to conspire with the Russians. To the extent Cohen’s testimony undercut Trump dossier allegations of conspiracy and collusion with the Russians, the more likely it appears that such things never happened. Coming on the heels of the bipartisan Senate Intelligence Committee conclusion earlier this month that no “direct evidence of a conspiracy between the Trump campaign and Russia” has been uncovered, we see a diminishing likelihood that the Mueller probe will produce any smoking gun on collusion, much less an impeachable offense.

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