Trump fumes as Powell says Fed will ‘act as appropriate’ and offers little hint at further rate cuts

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The Federal Reserve will “act as appropriate” to keep the U.S. economy healthy, Fed chair Jerome Powell said on Friday, remarks that did not say how fast it might cut interest rates, drawing fire from President Donald Trump.

The Fed chair, under pressure from Trump and markets to cut rates, characterized the U.S. economy as in a “favourable place” but facing “significant” risks, especially what Fed officials have described as the harmful effects of the White House’s trade war with China.

There are “no recent precedents to guide any policy response to the current situation,” Powell said in a closely watched speech at an annual Fed retreat in Jackson Hole, a valley set against the Grand Teton mountains. Powell added that monetary policy “cannot provide a settled rule book for international trade.”

Powell did note that rate cuts in the 1990s helped keep an expansion intact. But the overall tone of his statement, a reflection of divisions within the Fed itself over what to do next, may disappoint investors expecting the central bank to cut rates at its September meeting and possibly several more times this year. The central bank reduced its benchmark rate by a quarter percentage point in July for the first time in more than a decade in what Powell referred to as a mid-cycle adjustment.

Trump, who has demanded rate cuts, condemned the Fed for doing nothing “as usual” and said “our great American companies are hereby ordered to immediately start looking for an alternative to China.”

The initial response in markets to Powell’s speech was muted, but Trump’s tweet caused stocks to dive and bonds to rally, with yields falling to their lows of the day.

“Clearly, when you look at U.S. yields’ and the dollar’s reaction, there are concerns that these latest comments from Trump on China will push the U.S. into recession,” said Marvin Loh, senior global markets strategist at State Street in Boston.

Trump’s remarks only added to uncertainty around U.S.-China trade negotiations that has been rising for months, issues that Powell said the Fed could not completely set right through monetary policy.

Between the trade conflict, the possibility of a hard “Brexit,” tension in Hong Kong, an economic slowdown in places like Germany and other overseas troubles, Powell said the Fed needed to “look through” short-term turbulence and focus on how the United States is performing. He said U.S. business investment and manufacturing have weakened but touted strong job growth and rising wages as helping support a consumption-led economy.

Divided Fed, angry Trump

No matter what course Powell chooses, it is clear from the minutes of the Fed’s most recent meeting released Wednesday and from the range of comments from policy-makers also in attendance here that he lacks a broad consensus among his colleagues about the appropriate course of action.

Earlier on Friday, St. Louis Federal Reserve Bank President James Bullard said the policy-setting Federal Open Market Committee would have a “robust debate” about cutting U.S. interest rates by a half percentage point at its next policy meeting in September.

"I think there will be a robust debate about 50," he said in an interview with Bloomberg TV. "I think it's creeping onto the table."

Bullard, who has long advocated for lower rates to address the persistent shortfall in inflation, said he is troubled by signs of a slowdown coming from the bond market – a so-called "inversion" of the Treasury yield curve that has stood as a reliable precursor to U.S. recessions.

He is "not interested" in testing the theory "that this time is different" with regard to interpreting the bond market's signal, Bullard said.

Meanwhile, Cleveland Federal Reserve President Loretta Mester, who did not support the Fed's rate cut last month, said she is not yet convinced of the need to cut rates further.

"At this point, if the economy continues where it is, I would probably say we should keep things the way they are," Mester told CNBC. "But, I am very attuned to the downside risks to this economy and I want to make sure we're always focused on our dual-mandate goals."

The Bullard-Mester divide is emblematic of the wide range of opinion inside the FOMC, which voted 8-2 to cut rates on July 31 for the first time in a decade. That tally did not fully capture the disapproval of the move by those without a vote at the meeting, including Mester.

And, of course, there is Trump. He has been unrelenting in his demands that the Fed cut rates, in part to help take some of the wind out of a strong U.S. dollar that he sees hurting U.S. exports.