



You could write a book!

At the close of Friday there were three important points to write about: the incoming Federal Reserve Chair, the tax bill coming out of the House, and how to interpret the week's economic releases. The weekend changed that and added enough news to write a book. The additions of course are: the shocking Saudi crackdown, Mr. Trump's speeches in Asia, another important departure from the Federal Reserve and, of course, the awful shootings in Texas.

The Texas shootings, of course, is by far the most dramatic and the people of that congregation and town deserve all the sympathy they can get.

William Dudley is leaving his post as President of the New York Fed. It is a hugely important post and Mr. Dudley has filled it very well. The president of the N.Y. Fed is perhaps the most important monetary policy post there is. Big, big changes at the Fed.

Donald Trump made his choice for the new Fed Chair. He selected Jerome H. Powell, better known as Jay. Mr. Trump was faced with two good choices, reappoint Ms. Yellen who did, and continues to do, a fine job as Chair, or appoint Mr. Powell. The news services have called this a safe choice and indeed it is. A safe choice is just what is needed. Safe does not mean he won't be aggressive if needed, nor does it mean he does not act independently. He will do both if needed. As we are all aware by now, Mr. Powell is not an economist which should not be a problem. He will have a host of brilliant economists at his beck and call. He has proven himself an excellent student and consensus builder and that is what is needed. If that is not enough, Stanley Fischer, one of the most respected Central Bankers and an eminent economist, has been quoted as saying that it was not necessary for the Chair to be an economist. We think that the path set by both Bernanke and Yellen will be followed by Powell. That is high praise. In practical terms we look for moderately higher interest rates and a consistent policy of shrinking the Fed's balance sheet, both important and correct. What does remain to be seen is how Mr. Powell views bank regulation in his new role. People have written he will be more lax on regulation than the past two chairs. That remains to be seen. If he is not quite as stringent on regulation, it will not be by much. We are pleased by his nomination.

The Republican Congress, with great fanfare, released its tax bill. There are still many questions and a long difficult road ahead, but some things are well known and there were some surprises. The biggest point we want to make is this is just the very beginning on a long and perhaps difficult journey. This bill will go through many changes before it faces a final vote, if it faces a final vote at all. There were many goals in crafting this tax reform package: lower tax rates for Middle Americans, dramatically lower corporate tax rate, higher tax rates for the rich, help lower the current account deficit and, at the same time, balance the budget. Each point has its own constituency. Unfortunately they are not all compatible, which means there will be a need for compromise, something we haven't seen in great abundance over the past years in Washington, whether inter or intra party. Even though the Republicans have a slight majority this bill is by no means a "done deal". Mr. Trump promised a lower tax rate for corporations; this is certainly in the package. It calls for the reduction of the corporate rate to 20%, but that comes with the removal of certain, here-to-for important deductions. Right from the start, Republican tax writers reneged on dramatically reducing the size of the 401(k) deduction. They did reduce the size of the mortgage deduction and increased the inheritance tax exclusion eliminating it in a few years. The elimination of the deduction for state and local taxes is not a popular part of the bill. Back to the corporate side. They propose changing the pass-through tax, heavily favoring small businesses, such as manufacturing firms, and hurting service firms. There are of course many more details, but clearly there will be big changes. Voters still don't know what it will do for the budget and it is unlikely to change the current account deficit much, if at all. Businesses, lobbyists and non-profits amongst others are already lobbying against many of the bill's most important points.



The Saudi move is very interesting and using the illumination of corruption as a motive to clean house has an ominously familiar ring to it. Alas, out of space and we will cover this later.

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The Week Ahead:

- **MONDAY:** EC Markit Eurozone Services PMI expected at 54.9; EC Sentix Investor Confidence expected at 31
- **TUESDAY:** Australia Reserve Bank of Australia rate-setting meeting; Germany Industrial Production SA m/m expected at -.80%; China Trade Balance expected at 39.45b
- **WEDNESDAY:** Canada Housing Starts expected at 210.0k; Canada Building Permits m/m expected at 0.10%;
- **THURSDAY:** Germany Trade Balance expected at 220.b; U.S. Wholesale Inventories m/m expected at 0.30%; Canada New Housing Price Index m/m expected at 0.20%
- **FRIDAY:** UK Industrial Production m/m expected at 0.30%; US U. of Mich. Sentiment expected at 100.6; France Industrial Production m/m expected at 0.60%