# Daily Report

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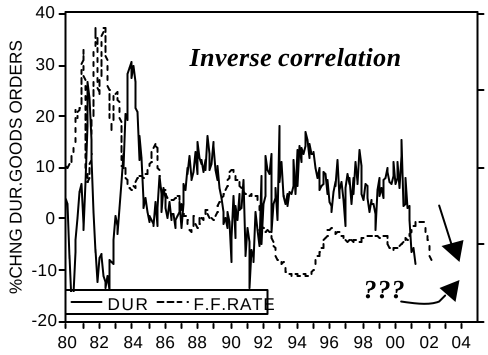
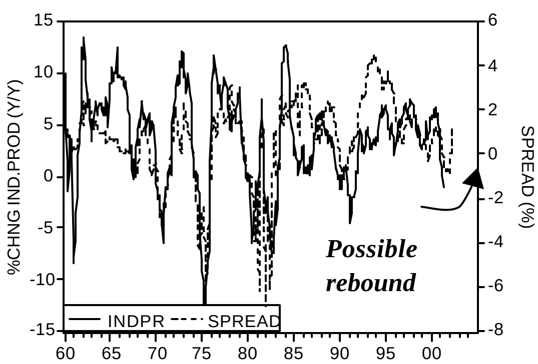
## Will the cut in the federal funds rate prevent a recession?

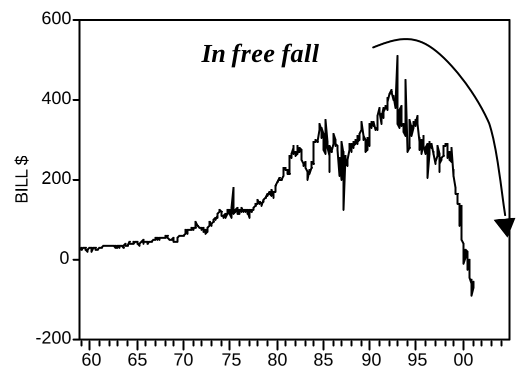
The Fed has lowered its target for the federal funds rate by **0.5**% to **4**%. Since January, the US central bank has lowered the target by **250** basis points. The decision to cut by **0.5**% was motivated by concerns that investment in capital equipment has contracted (see chart). Year-on-year capital goods orders fell by **8.9**% in March after a fall of **5.6**% in February.



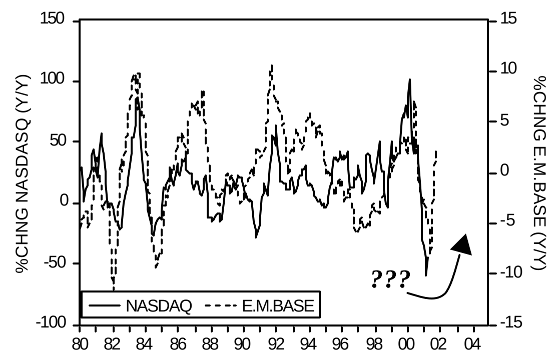

This aggressive lowering by the Fed has further contributed to the steepening in the differential between the yield on the 30-year T-bond and the federal funds rate. As long as the pool of funding is still expanding it is quite likely that the steepening in the yield curve will set the foundation for a rebound in industrial production growth (see chart).




It is however, quite possible that the pool of funding could be in trouble. The flow of personal savings fell in March by $**59** billion after a fall of $**72** billion in February (see chart).




In the meantime, a visible rebound in the yearly rate of growth of excess money base might help the Nasdaq Composite, provided that the pool of funding is still expanding (see chart).




### Financial News

- China's April ind output up **11.5**% y/y
- Tokyo April dep stores sales up **2.7**% y/y.
- German WPI up **4.1**% y/y in April.
- UK RPI up **1.8**% in Apr vs **2.3**% in Mar.
- US chain store sales up **1.3**% in w/e May 12.
- Fed cuts the discount rate by **0.5**% to **3.5**%.

### Thought for today

He who conquers others is strong, he who conquers himself is mighty.
**Lao-tzu**