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Fed's dovish stance on rates provides short-term boost, but could be storing up significant trouble longer-term

The gold price moved firmly above US$1,300 this week as the US Federal Open Markets Committee surprised investors and analysts with a clear and dovish commitment not to raise interest rates any further this year.

Previously, the consensus had been that there would be at least one more rate rise this year, with some commentators anticipating two or even three.

Markets as a whole were nonplussed, at least initially. On the one hand, the Fed's caution allows for cheaper money for longer, which in turn should lead on to more economic activity. That ought to boost equity prices, especially since the other side of the same coin is a slightly weaker dollar.

On the other hand, there are niggling doubts as the to underlying reasons for the Fed's caution. Is the outlook for the global economy really so poor that the US, which after all is in a strong period of growth, really can't stomach a single further rate rise?

The thought of what such an economic scenario might entail initially led to a bout of selling on US and international markets. After all, there are plenty of bearish signs for the global economy if you care to look: a German economy stuttering at the edges of recession, an Italian economy already in recession, the likely economic hit from Brexit, whatever the outcome, the slowing pace of growth in China, and the populist-inspired tariff war initiated by President Trump, which shows no immediate sign of abating.

But it didn't take long before the upward march of markets resumed, as the mood shifted and the appetite for risk that the FOMC is banking on reappeared.

Not everyone is satisfied with that outcome.

In a blistering commentary on the Fed's sudden dovish posture, Steen Jakobsen at Saxo Bank argued that the Fed had "thrown in the towel."

Jakobsen's case is that any notion that the Fed is independent has been well and truly put to bed by the switch to caution. Let's not forget that it was only at the end of last year, a matter of three months or so, that the Fed itself was signalling that three rate rises at least were on the cards for 2019. Now less than two months in, none are planned.

Jakobsen doesn't quite spell it out, but his inference is pretty clear. Previous Fed chairmen Paul Volcker and Arthur Burns struggled, with only partial success to remain free from the influences of Presidents Reagan, Carter and Nixon respectively. How independent is then Jerome Powell, a recent Trump appointee, who can count his tenure in months rather than years?

No question previous Fed chair Janet Yelland would have stood up to Trump, but with Powell the situation is more nuanced. Initially markets thought he would be a patsy, then he demonstrated a certain independence. Now though, it seems that because the interests of equity markets at least are aligned with President Trump, the question of independence is arising less.

But Trump is very much on the Twitter record as being in favour of a dovish approach, and has even reproached Powell personally, in one of his many new breaches of precedent.

Jakobsen argues that the conditions are now being created in which job creation will be one of the top priorities of economic policymakers. To an extent we are already seeing this, although recent US employment figures have been confusingly erratic.

That emphasis on job creation fits well enough with Mr Trump's populist agenda, but questions remain about the resultant problems that are being stored up for the future. In a sense, of course, that is not Mr Trump's problem, since he ought to be able to ride the short-term wave of economic prosperity so created to build a strong platform for re-election to a second term.

But it is Mr Powell's problem, as the man tasked with the long-term stewardship of the US economy. Defenders of his new dovishness will of course point to the slowing pace of growth in the wider world. But the naysayers are raising strong points too - by offering constant and unremitting monetary stimulus, how much of a bubble is being built up, and if a bubble is being built up how serious will the subsequent crash be?

There is a growing sense amongst certain economists that much of the growth of recent years, recent decades even, has been chimerical at best, a manipulation of the numbers using mergers and acquisitions and other high finance tools to deliver the illusion that the American dream of constant growth is still alive.

Mr Trump has developed his own political version of this, and it's been very successful. So far. But with the Fed constantly on the back foot against the economic forces that are pressing down on it, it's hard to make the case that anyone's really in control.

Radical libertarians might think that that's a good thing. But in a world over ever-growing complexity, those of a more mainstream demeanour are finding there's precious little that's solid for them to hold onto.

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