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IS THE END OF THE EXPANSION IN SIGHT?

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WHAT WAS BEHIND THE RECENT U.S. YIELD CURVE FLATTENING?

Typically, yield curves flatten when a central bank tightens monetary policy, so in that sense the recent flattening has been quite normal. The important question is: Is the Fed able or willing to do anything about it? So far, its operating principle can be described as "behind the curve is ahead of the curve"—in other words, it has deliberately been slow to tighten to allow the economy to gain sufficient momentum before proceeding to reduce the monetary stimulus.

The risk of this approach is that the labor market overheats to an extent that a recession is required to rein wage pressures back in. At the moment, there's not much evidence of rampant wage demands, but U.S. unemployment is very low, and that will eventually put upward pressure on pay. Ultimately, the choice comes down to either controlling inflation or managing the yield curve—and the Fed will always choose to focus on inflation. My sense, however, is that it is slightly behind the curve and will struggle to deliver a smooth slowdown.

SO IS THE END OF THE ECONOMIC EXPANSION IN SIGHT?

In sight? Yes. In near sight? No. I think the expansion will end in around two years' time or shortly after that. The U.S. administration has launched a procyclical fiscal expansion, and this should support growth through to 2019. China seems to have learned its lesson following the currency devaluation debacle in 2015, and I think the authorities will do whatever they need to ensure that growth does not slow too rapidly. Europe has slowed, but I see this as a moderation in the data rather than a meaningful downturn—parts of the Continent are still in the early stages of recovery, and monetary policy remains fairly loose.

The bell usually rings for the final stage of an expansion when there is significant wage inflation, and I don't think we're there yet. However, the seeds of future wage inflation have been sown by the low unemployment rate. So while we're clearly in the latter stage of the business cycle, the end of the expansion is not imminent.

IS A U.S.-CHINA TRADE WAR A LIKELY PROSPECT?

President Trump's approach to negotiations seem to follow the principles he laid out in his book "The Art of the Deal": Begin by punching your opponent in order to gain leverage. This is exemplified by his threats to withdraw from NAFTA, his proposed tariffs on trade with China, the steel and aluminum tariffs (that were later rolled back for the most significant trade partners), etc. At the same time, Beijing's "Made in China 2025" agenda (to dominate a large number of global industries through superior technology) seems to have rung alarm bells all across Capitol Hill. I think that putting their longer-term strategic objectives so bluntly may have been a bit of a policy mistake by China—"Made in China 2025" sounds like an industrial declaration of war, and nobody in the U.S. is going to like that.

Although both the U.S. and China have drawn firm battle lines, it's possible that this is mostly posturing and that they will eventually agree to a mutually beneficial trade deal. While it may help Trump to look tough on China ahead of the forthcoming U.S. midterm elections, it will probably be better for him to have agreed to a deal in time for the next U.S. presidential election in 2020.

WHAT IMPACT WILL THE RECENT RISE IN OIL PRICES HAVE?

A rise in oil prices can be regarded as a redistribution of wealth from oil consumers to oil producers. This is important because the eurozone, Japan, and China are very large oil importers, so any price increase will be a headwind for them; on the other hand, Middle Eastern countries, Russia, and Colombia are net oil producers and will benefit from a price increase in the form of stronger external balances.

Historically, recessions have often coincided with meaningful increase in oil prices, but the structure of the U.S. economy has changed meaningfully over the past years: The U.S. has shifted from being a very large oil importer to having a roughly balanced oil account. Today, the impact of rising oil prices in the U.S. is more about redistribution from consumers to producers than a direct transfer from the U.S. to the rest of the world. However, this redistribution across sectors can also be disruptive, as we saw in 2015.