

# Central Banks And What They Can Do For Us.

Policy:

In December, the ECB extended QE from September 2016 to March 2017. Markets did not think it was sufficient, spreads between peripheral bonds and bunds widened, the EUR strengthened and equity markets sold off.

In late January the BoJ cut rates into negative territory and was rewarded with a stronger JPY and weaker equity markets, and the equivalent of a coronary in its money markets. Fortunately, not all was lost and JGBs rallied.

Last week the ECB was given a second chance to demonstrate determination and did so by cutting rates, increasing QE by 33%, including non-financial corporate IG to the shopping basket, and another dose of TLRs. Markets were skeptical at first but seem to be warming to the measures. This is the 3<sup>rd</sup> trading day after the announcement and markets are buoyant so only time will tell.

Tomorrow, the BoJ will announce its policy decisions. It is hard to see what it can do to boost markets. Evidently it can do nothing for the economy.

On Wednesday the Fed announces its decisions and publishes an update on the dot plot. The American economy is robust despite being in a shallow, temporary and controlled slowdown. On domestic data alone, a data dependent Fed would raise rates. The Fed is, however, unwilling to unnerve investors since their behavior impacts market interest rates and credit spreads and is therefore a Fed control variable. The Fed has not signaled strongly that it will act and therefore will likely delay the rate hike into the summer. Hopefully, the USD will be sufficiently weak, equities sufficiently buoyant and spreads sufficiently tight for the Fed to play catch up.

At some stage all these central banks are going to have to start thinking about what they can

do for the real economy.