Muddled messages from Central Banks

This week the ECB seemed to hint that Euro rates might have to rise and bond buying be reined in given the uptick in inflation and some recovery in activity. The Euro strengthened, then the ECB seemed to stress again continuing easy money and negative rates.

Meanwhile the Bank of England Governor said UK rates would stay low, only to be followed by his Chief Economist arguing that we might need an earlier rise. This led to a revised view from the Governor not ruling out some earlier rise. The pound rallied more against the dollar as a result. The pound has now risen 8% against the dollar from the low. All those who think UK inflation is driven by sterling will presumably now revise their inflation forecasts down, though they do not do so noisily as they did when get pound was falling.

Does any of this matter? Yes it does. Markets which determine mortgage rates and other real world matters have been unsettled by wobbly guidance from mighty institutions that have great impact on the rest of us. They need consistent and clear guidance, as the Fed successfully gave in the run up to its rate rises, and is now seeking to give in its wish to cut back the amount of created money and bonds it holds.

The Bank of England wants to cut personal borrowing in general and car loans in particular. This is seeking cuts and tightening before the recovery is well advanced. It comes on top of the damage the large increases in VED on dearer cars have caused, and the adverse impact of high Stamp duties and Buy to let changes on the housing market.

It has been a good couple of weeks for those of us who think the main determinant of currency moves is actual and expected interest rate differentials, not Brexit. The UK authorities are tightening prematurely, so expect less inflation and a bit less growth as a result.With expanding numbers of jobs, a short term spike in inflation and more growth to come allowing current levels of consumer borrowing would be a sensible approach. Just as the Bank tells us it is looking through the inflation spike, so should consumers who have jobs.