Central bankers rule OK?

The key take away from Thursday's ECB announcement was that nothing has changed. Jaw boning is still the main policy tool and further cuts to interest rates and purchases of asset back securities are further fleas on the back of the EU elephant. A 10bps (0.10% if you like) interest rate cut is hardly going to make the good citizens of Europe rush to their bankers for a loan. Not that those banks would be interested in granting them one if they did!

The interest rate on the deposit facility which banks "earn" when they deposit money with the ECB (because they are reluctant to do anything else with it) will be decreased by 10 basis points to -0.20%. So now if they are thinking of "borrowing" money under the targeted long term financing operation (TLTRO) they will be paying 20bps to park the money while they decide if they want to lend it out – assuming there is demand in the first place, which there isn't! So the banks won't be rushing out to use this facility either will they?

The ECB press release included this statement which has been the apparent trigger for upward moves in eurozone equities and the short end of the bond markets – *"The Eurosystem will purchase a broad portfolio of simple and transparent asset-backed securities (ABSs) with underlying assets consisting of claims against the euro area non-financial private sector under an ABS purchase programme (ABSPP)."* In simple terms they are buying a bunch of repackaged mortgages and private loans.

This theoretically allows the banks to recycle capital so that they can issue more debt which is one of the ways RBS got into so much trouble. The European ABS market is still pretty small so any funds raised this way are not going to be of any great significance and won't help the countries that need the help the most ie Southern Med. The Germans on the other hand don't need any help at all!

The most obvious, and necessary, effect as far as the ECB is concerned is to weaken the euro, but by nowhere near enough for Greece, Spain and Italy.

In Japan Abe's third arrow has failed to gain escape velocity and he is relying on the BoJ to keep printing. Kuroda also spoke at the recent Jackson Hole meeting and confirmed that if need be further QE would be forthcoming. The BoJ not only buy JGBs (they now own more than one third of the entire market) but they also buy Japanese equity ETFs. Just imagine where the S&P 500 would be if the Fed were allowed to do this (assuming they aren't already…). They are trying desperately hard to get some inflation into the system to generate some scope for companies to start paying higher wages, but with the threat of a further sales tax hike from 8% to 10% it is a difficult target they have set themselves. The sales tax regime was introduced as part of the third arrow economic reform package; might be a good idea to let this one go Abesan.

Janet Yellen spent most of the time talking about labour statistics at Jackson Hole and summarised by saying that economic conditions were perhaps still too fragile to start raising rates soon. Last month's employment figures have confirmed her view although pundits are using the usual smoke and mirrors about seasonal adjustments et al to make the disappointing numbers seem of little consequence; closing on a new all-time high on Friday, S&P 500 aficionados apparently agreed with this sentiment.

Yellen's counterpart in London has been keeping a low profile lest he is asked why he hasn't raised interest rates in the UK yet given the apparently strong numbers emerging from the economy. It has been suggested that Carney won't intervene before the election next May. Traditionally the Bank has not raised rates in the six month period before the event so that means he has another couple of months to go and could still surprise us.

Trying to follow a sane investment strategy when all the cards are held by the central banks is becoming increasingly difficult. Sovereign debt has surprised so far in 2014, but now, as a safe haven, only the very short end of the curve has any attraction. European ABS have a support level courtesy of the ECB, but do you want to be holding them in weak currency? The BoJ are committed to supporting their equity market too and the S&P can seemingly only travel in one direction. There are some markets still playing catch up; the baton here has been passed to China and the Shanghai A-shares index, which after a decent pause for breath in August, is beginning to get a move on again.

But the game of risk is being gamed ever upwards. Small savers and large institutions alike are being pressured into asset classes to generate a "decent" return that will not afford them any protection when the central bank merry go round stops.

Finally another quote from Dr Aghi. "It's completely wrong to suggest we want to expropriate savers"; but you have Mario haven't you?