

Loose lips sink ships

A little more discipline from certain quarters would be helpful for financial markets



He's behind you!

Yesterday we wrote that we wanted to focus on macroeconomics again. But with political noise doing most of the driving in markets, that hope has proved exceptionally short-lived.

Anyone who grew up with the pantomime tradition of theatre will know the "Oh, yes he did, Oh, no he didn't" spectacle of Cinderella, or Aladdin. But there are certain elements of this that alarmingly seem to be playing out at the top of the US administration currently, not least with respect to what the Fed is doing.

There is a tradition that the US Treasury does not comment on rate policy, and that the Fed never comments on the appropriateness of the currency or FX policy. This is done for a reason. Both policies influence each other, and loose comments by one could undo the work done by the other. Big deal? Not maybe, unless you count wiping billions of dollars of FX, or rates trades off one side and giving them to the other. And then giving them all back again when you deny what you said, or what you meant.

US President Trump has in the past given a fairly mixed message about his preference for the

dollar, with most of the comments seeming to side with a weaker currency unit. Overnight, he briefly pushed it that way, though not directly, but with critical comments about the Fed's cautious tightening. It didn't last, and today, the EURUSD rate is roughly where it was when I dragged myself in yesterday morning, thanks, mainly to some hefty back-pedaling from the Whitehouse.

Now having talked about the US Treasury and the Fed, the US President usually stands aloof from all of this, as do most heads of state (Turkey's Erdogan excepted). This is because rate and FX policy is complicated stuff, with teams of boffins working away for the common good of their economy. It is optimistic to think that one person, especially one whose main responsibilities lie elsewhere, can have a solid grasp of what either of these two other bodies is trying to achieve.

That said, aside from the President, the relationship between the Fed's Powell and Congress seems decidedly warmer than it did under either Bernanke or Yellen. They seem to like, or at least appreciate what Powell and the Fed are doing with their cautious tightening. They understand that this is done, not to damage the prospects for US growth, but to help sustain it for as long as possible. Even Larry Kudlow, President Trump's economic adviser, seems supportive.

To avoid unnecessary miscommunication and market volatility, it does seem at the least as if someone should re-emphasize the traditions of responsibility laid out for the various Federal institutions, and why they are in place. Otherwise, this could get messier.

BoJ Inflation target - unachievable

Since the Bank of Japan (BoJ) chopped out its reference to achieving its inflation target in 2019, there has been a lot of speculation about what if anything this means for the target, and in turn, monetary policy. Suffice it to say, the 0.7%YoY June National inflation rate released today, will only encourage those who think that the target should be quietly dropped altogether. This was a bad result, as the normally reliable Tokyo figures had suggested a small increase in the year-on-year rate. In my view, the 2% target is not only not achievable by normal means (so, not by currency devaluations, consumption tax hikes or commodity price spikes), but is set too high, implying an excessively weak monetary policy response that no longer has any effect. Chop the target? Why not?

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