

Promise in haste, repent at leisure

Recent data moves in the US highlight the problems of recent promises from the Fed, and ought to provide a lesson for the ECB, which seems to be mulling something similar. The BoJ provides a salutary lesson in how not to do it



It's payrolls day today

There's a very good piece by James Knightley on today's [US non-farm payrolls release](#), which notes how the rapid job gains of recent months are now slowing. The consensus view for non-farm payrolls today is for 875 thousand new jobs to be created (1.371 million last time), and for the unemployment rate to drop to 8.2% from 8.4%. In recent months, the consensus has been too conservative on the unemployment rate numbers, so if that trend continues, it could come in a bit lower still.

Anyway, the US labour report is a statistical lottery, so let's not spend any more time on that. Instead, one other comment in JK's note caught my eye - namely the rise in the August core PCE inflation rate to 1.6%.

Now, the US Fed has recently saying stated that:

1. rates will not be increased until 2024 at the earliest and;
2. that rates would also not be raised until inflation exceeded the 2% target for some time.

This raises an interesting question. Suppose the PCE deflator measure of inflation does indeed rise above 2% and does so quite soon. What will the Fed do then? I actually think the US beating its inflation target consistently is very unlikely in the near term. But on the off-chance that this does occur (I've been wrong before!), the Fed's options include:

- to do nothing, and simply live with it, which will see longer-dated bond yields powering higher, which could weigh on growth (10Y US Treasury yields did spike above 0.7% yesterday);
- Or it could renege on previous date-contingent promises, saying conditions had changed, but meaning a loss of credibility for all future-forward guidance as they build a reputation for lying, or incompetent forecasting.

Neither option is a good one, which is why I have written in the past quite critically of these forward guidance measures.

Why this is particularly interesting right now is in the context not of the US, but of the Eurozone, where the ECB is, by all accounts, also mulling taking a different inflation target approach along similar lines to the Fed. Preliminary EU inflation for September is released today, and the headline rate is expected to come in at -0.2%YoY.

But we also have good historical examples of what happens when a central bank raises its inflation target, in the form of the BoJ. They raised their inflation target from 1% to 2% in January 2013. For the record, their inflation now stands at a "heady" 0.2%YoY.

The lessons from all of this are numerous and too complicated for a short note like this. But they include being very, very careful about what you promise, and also not fighting a symptom of weak demand (low inflation), especially when you have limited tools available to fight its cause. Not that anybody at either central bank will care what I think, but forewarned is forearmed as they say...

Quiet day in Asia today

There isn't much on the Asia Calendar today. Japan has just released its monetary base figures for September, and they show another pickup, after the moderation exhibited since June. The monetary base now stands at JPY606tr, up quite a bit from the JPY582.9tr recorded for August.

10Y JGB yields have been nosing higher in recent weeks, so this could reflect the BoJ's resolve to try to push them down again to their 0% target (currently yielding 0.025%). We might anticipate outright purchasing picking up pace until the JGB yield closes in on 0% again.

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