WILL CENTRAL BANKS CRASH THE WORLD?

Agenda: Will central banks crash the world?

- Foundation: inflation and central bank independence
- UK policy error
- US, Europe and China
- Little Australia
- Are central banks worth having?
- Market implications

UK policy error

- UK has high inflation, high wage growth, big CAD and budget deficit
- Neo-liberal solution is austerity and rate hikes. See Martin Wolf and IMF
- Trussonomcs tax cuts libertarian not neo-liberal. Trickledown coup for MMT. Truss inner circle from radical trickle-down Institute of Economic Affairs
- Danger is classic external crisis with market-forced austerity via debt freeze which exactly what has happened
- BOE stick save can’t help
- Has the UK done the world a favour?

US, Europe, China and Japan

- Fed not done. Core PCE still double target. Wages growth very strong
- European wages growth weaker but PIIGS still carrying twin deficits. ECB caught in a vice of rising costs (energy) and sinking currency
- China's impossible trinity breaking down. Inflation low owing to terrible domestic demand but sinking currency and capital flight threaten easing. Fiscal is the answer so far but not enough. Danger of capital flight despite CAS. CNY risk
- Japan the last printer standing. Inflation still low. YCC intact but currency nerves growing

Little Australia

- So far, Australia OK with weak wage growth holding rates
- Tumbling AUD should be manageable given margin crush
- Much more manageable with energy fix
- Budget deficit improving and running CAS
- Danger 1 is rising bank funding costs as global markets freeze
- Danger 2 is consumer sector much more vulnerable to rising mortgage rates
- Commodity mix some support

Macro implications

- First scenario: central banks cool inflation without breaking anything too big. Only slow easing. Moderate global recession
- Second scenario: rising rates trigger rolling sovereign debt crisis or other meltdown. If UK is Bear Stearns, who is Lehman Brothers? UK printing followed by others. Deep global recession
- Deflationary shock followed by austerity as debt crisis rocks governments
- Or, deflationary shock followed by MOAR printing and MMT leading to reflating inflation as energy remains tight. Base case given market structure and energy?

Are independent central banks worth having?

- A lot of inflation is supply side
- Are job losses worldwide to make room for energy shortages reasonable policy?
- Is there an alternative? Macroprudential tightening. Fiscal policy. Horses for courses with localised inflation
- Pollies run fiscal and rates > run fiscal in concert with rates > run fiscal in opposition to rates
- Have we come full circle and have fake monetary independence?

Viewer question of the week:

Which central bank should Australians fear the most?

Drop your answers in the comments

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