

## Central Bank Update – July 8, 2021

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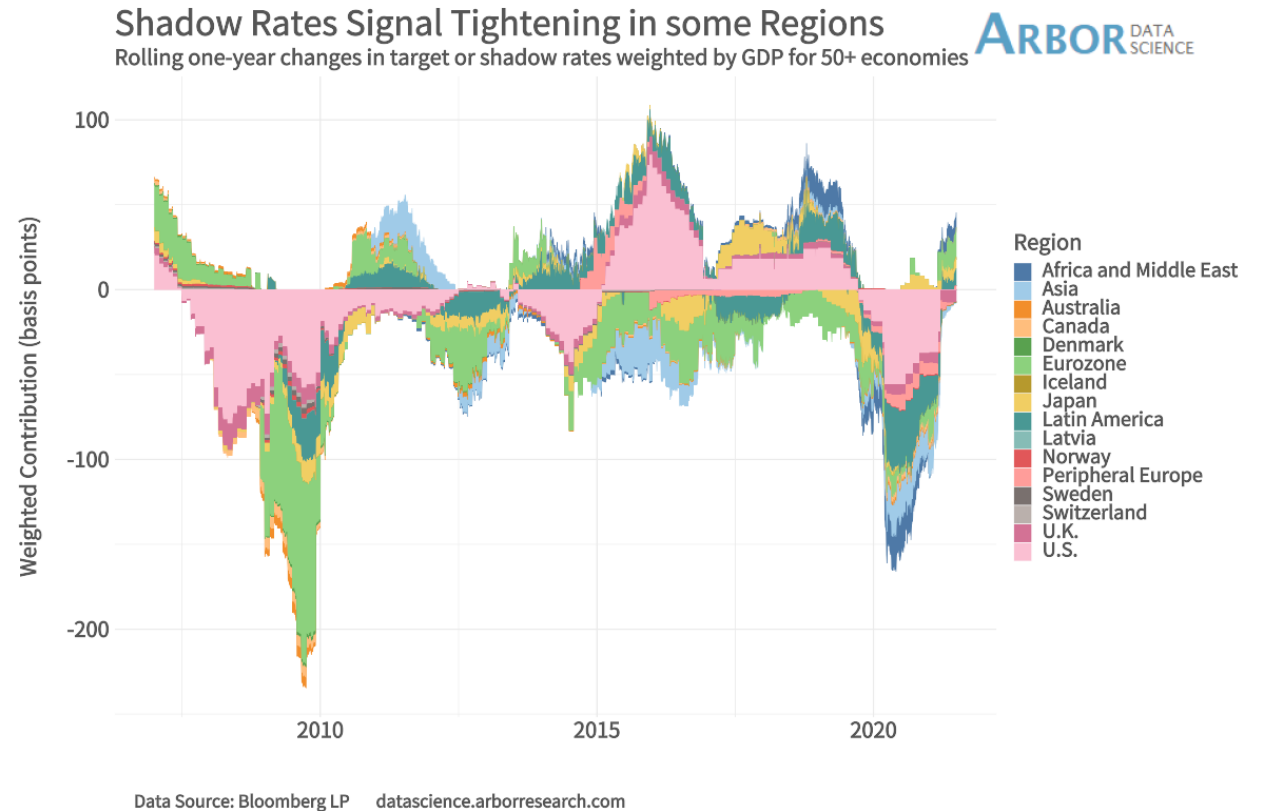
# Central Bank News

- The Reserve Bank of Australia will taper purchases [starting in September](#).
- The Bank of England [voted](#) to hold rates and maintain the current pace of purchasing for the time being.
- Canada has begun tapering and will raise rates in late 2022.
- The Fed's latest minutes were [more of the same](#). "Transitory" is used 8 times throughout the meeting and there is still no definite timeframe for tapering.
- The minutes do emphasize the importance of being "well positioned to reduce the pace of asset purchases, if appropriate".



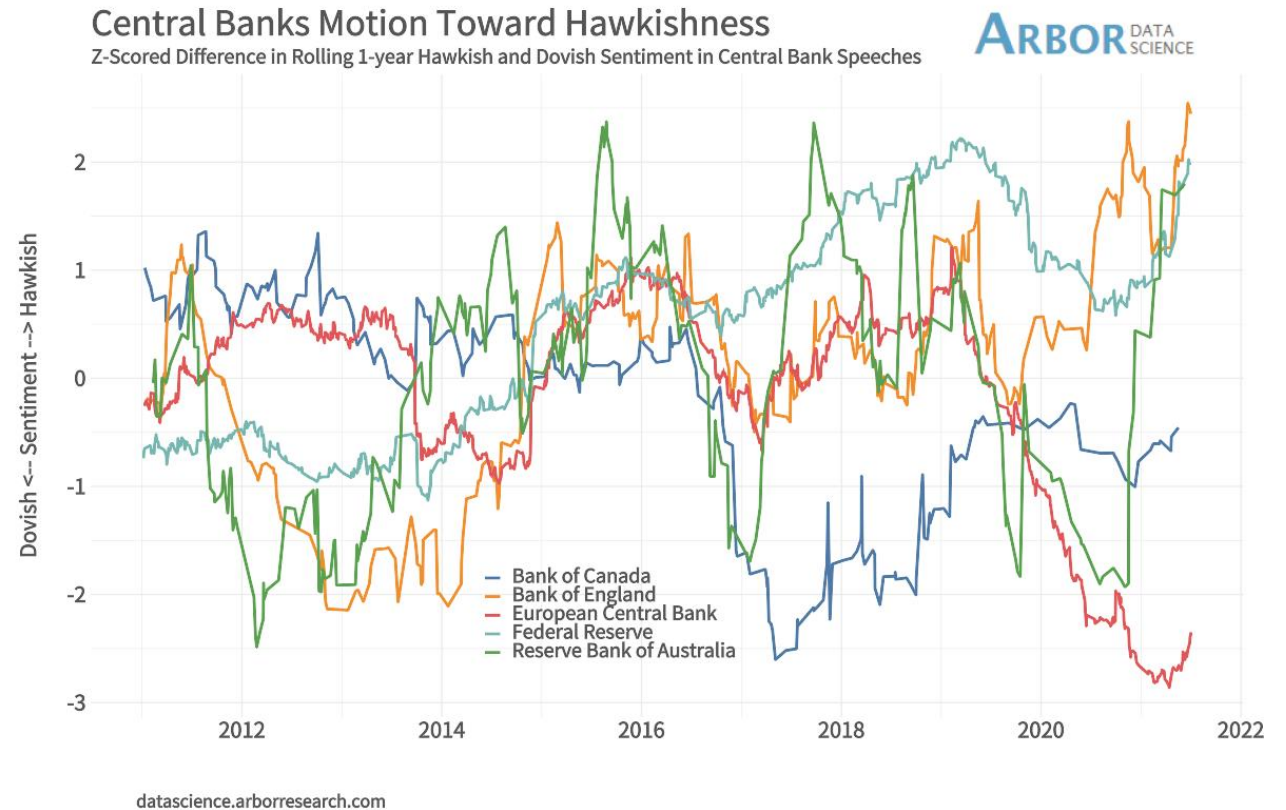
# Shadow Rates

- Rates have begun to increase across the board, even if for some they remain negative or zero.
- As more countries begin to taper, expect to see this trend continue in the coming months.



# Hawkishness is the Global Trend

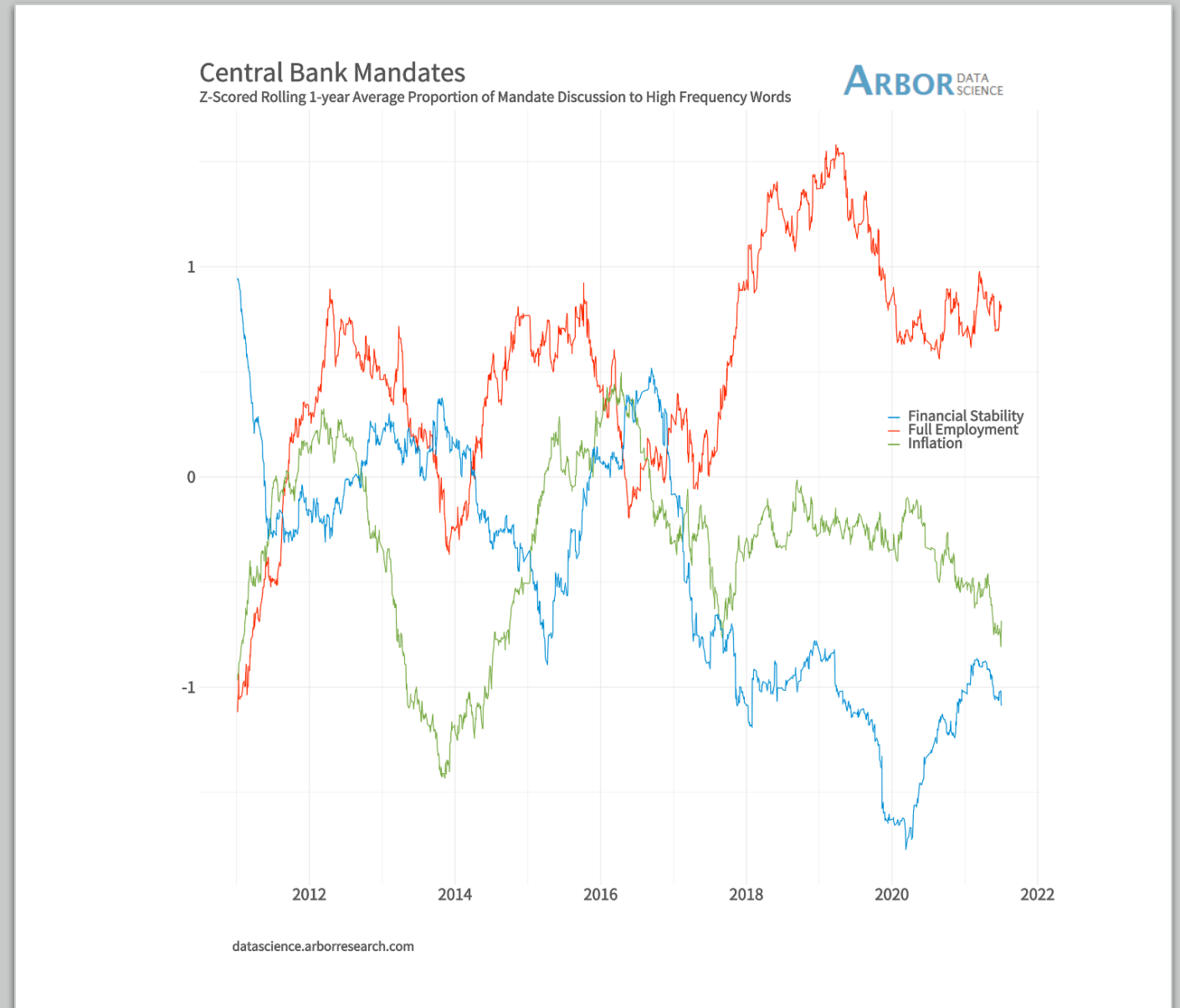
- The Federal Reserve , RBA, and BOE continue their hawkish bend with even Powell hinting that rates may be hiked sooner than expected.
- The European Central Bank is the major exception. Language in their speeches remains skewed far in the dovish-sphere.



# Mandates

- Full employment remains the primary concern for large central banks post-covid.
- Inflationary concerns take a backseat perhaps due to the belief that what we see is transitory.

*This chart includes the Federal Reserve, ECB, Bank of England, Reserve Bank of Australia, and Bank of Canada.*



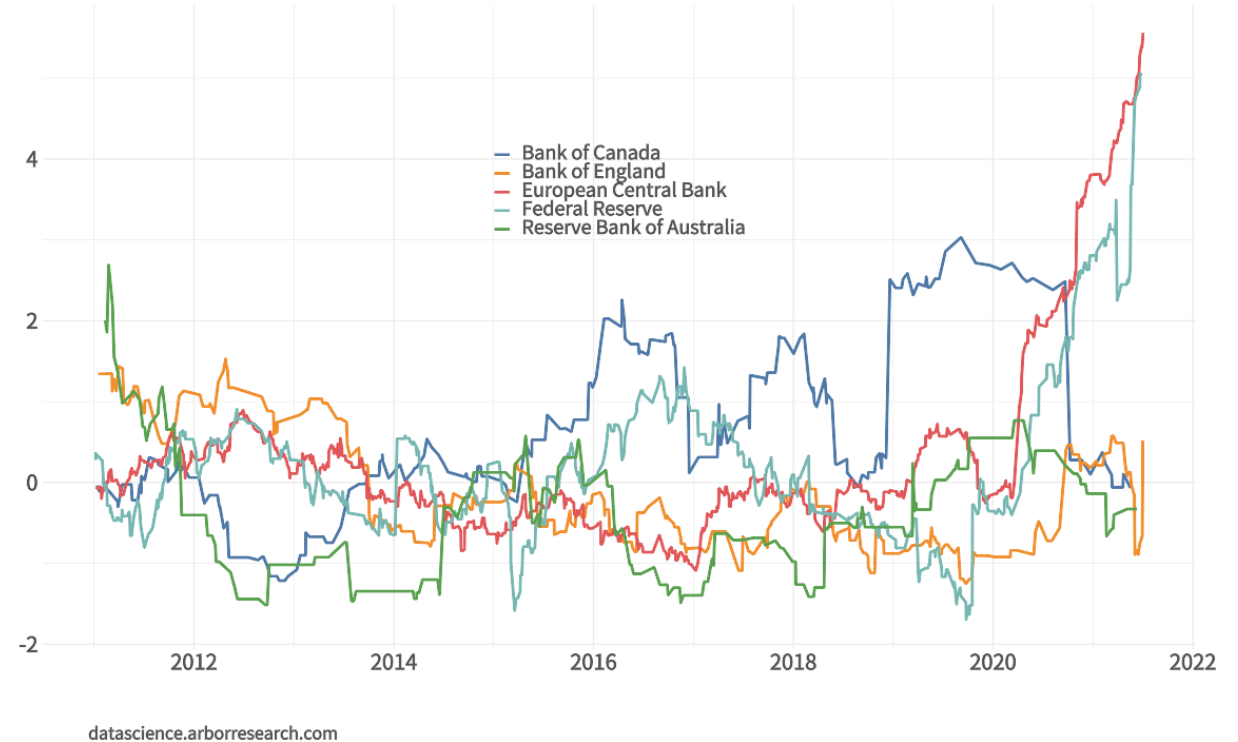
# Transitory Inflation

- It's a running gag among Fed-haters that Jerome Powell & Co. will dismiss any price increases as merely transitory.
- This certainly seems true of the Fed lately but whether these dismissals are incorrect is yet to be seen.
- The European Central Bank aligns with the Fed in calling recent price jumps transitory while the Canada and Australia are less convinced.

## Fed and ECB Continue Transitory Narrative

Z-Scored Rolling 1-year Average Ratio of Transitory to High Frequency Language in Central Bank Speeches

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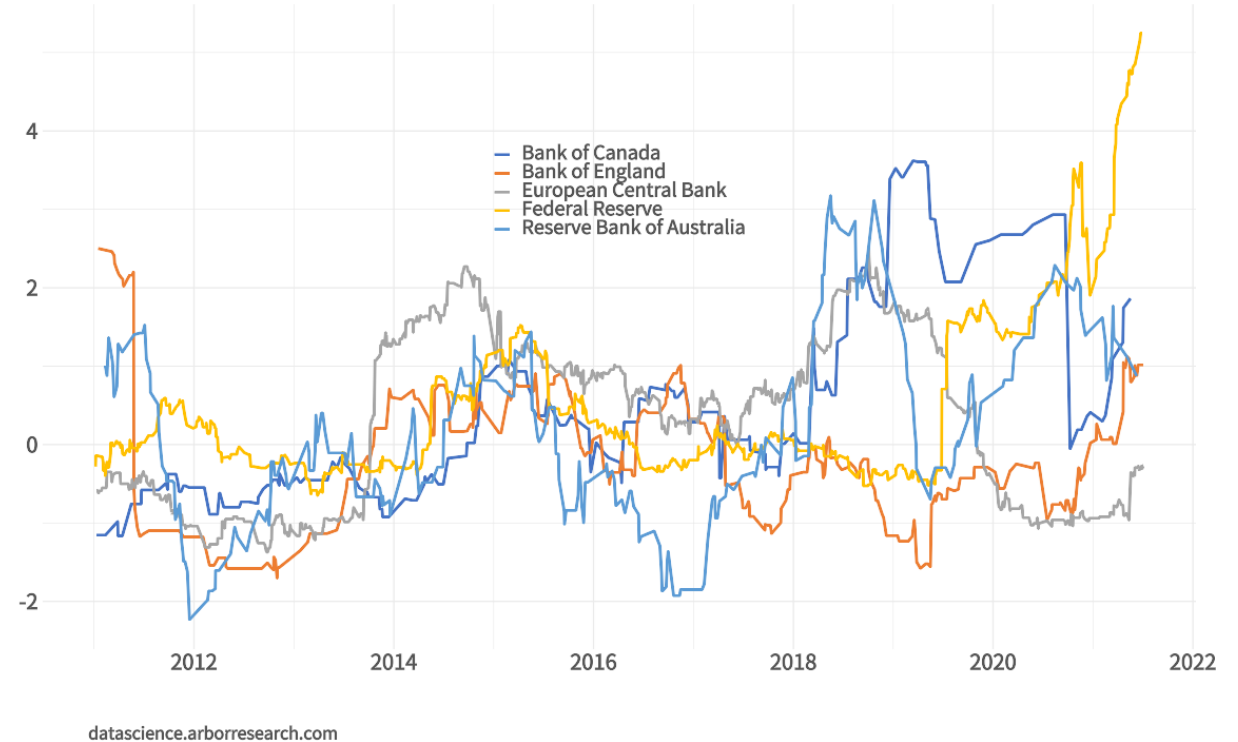
# Passivity

- The Federal Reserve is uniquely Passive relative to history (more than 5 standard deviations above average!).
- What this essentially amounts to is that the Federal Reserve is not ready to commit to a time to taper or raise rates.
- A few other banks are also being cautious, but none rival the Fed.
- We expect this trend will reverse if the Fed begins seeing a worthy foe in inflation as they begin discussing clear timeframes.

## Fed Still Ultra-Passive Compared to Peers

Z-Scored Rolling 1-year Average Ratio of Passive to High Frequency Language in Central Bank Speeches

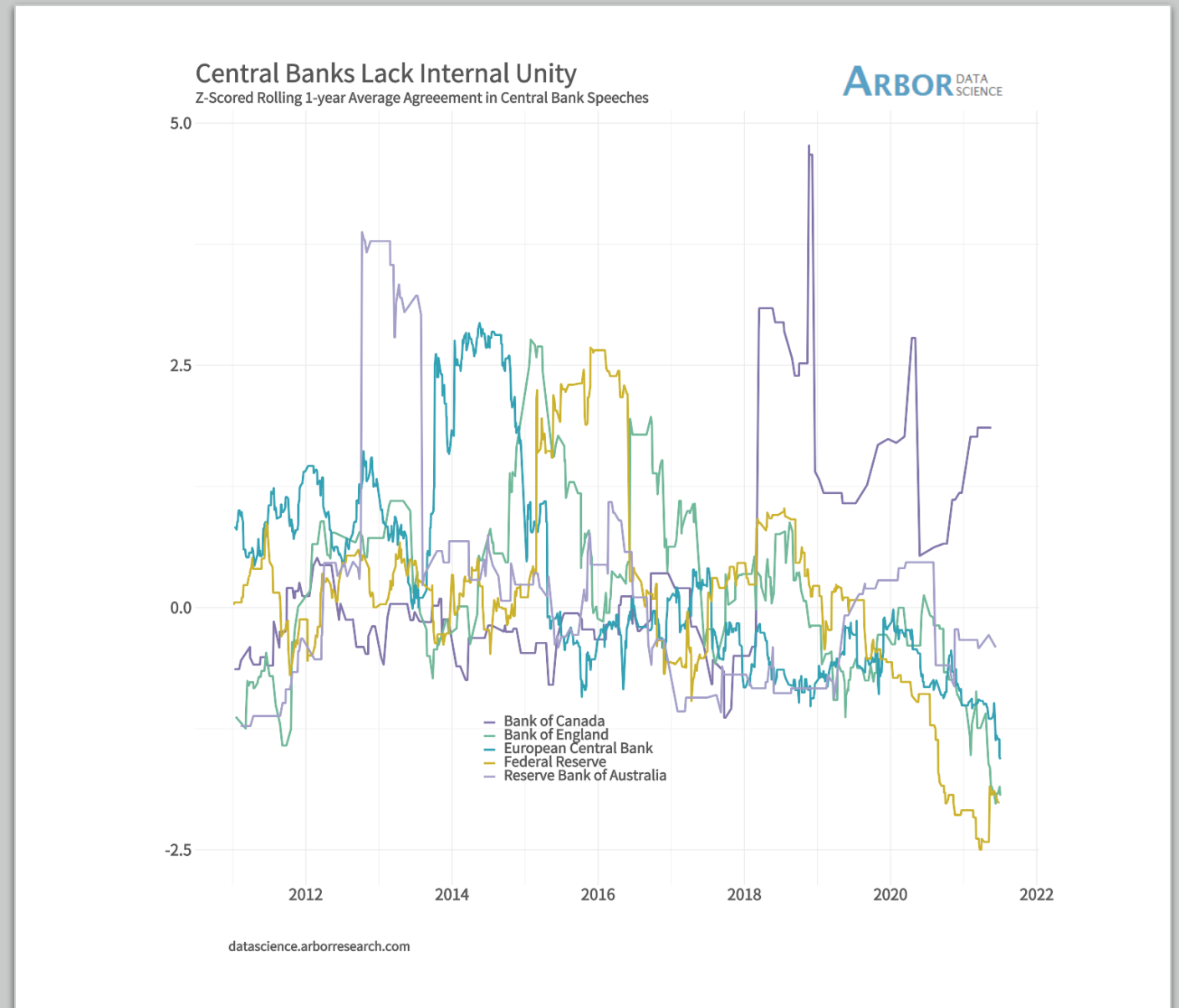
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# Agreement

- The amount of agreement can also be a good indication of policy changes.
- Broadly, agreement has declined steadily since the middle of last year indicating some level of infighting, perhaps over the transitory question.
- The Bank of Canada is an exception, and their members seem united on their goal of rate hikes late next year.





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