

Central Bank Update – December 1, 2021

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- Mandate Priorities
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- Passive Language
- Agreement
- Uncertainty



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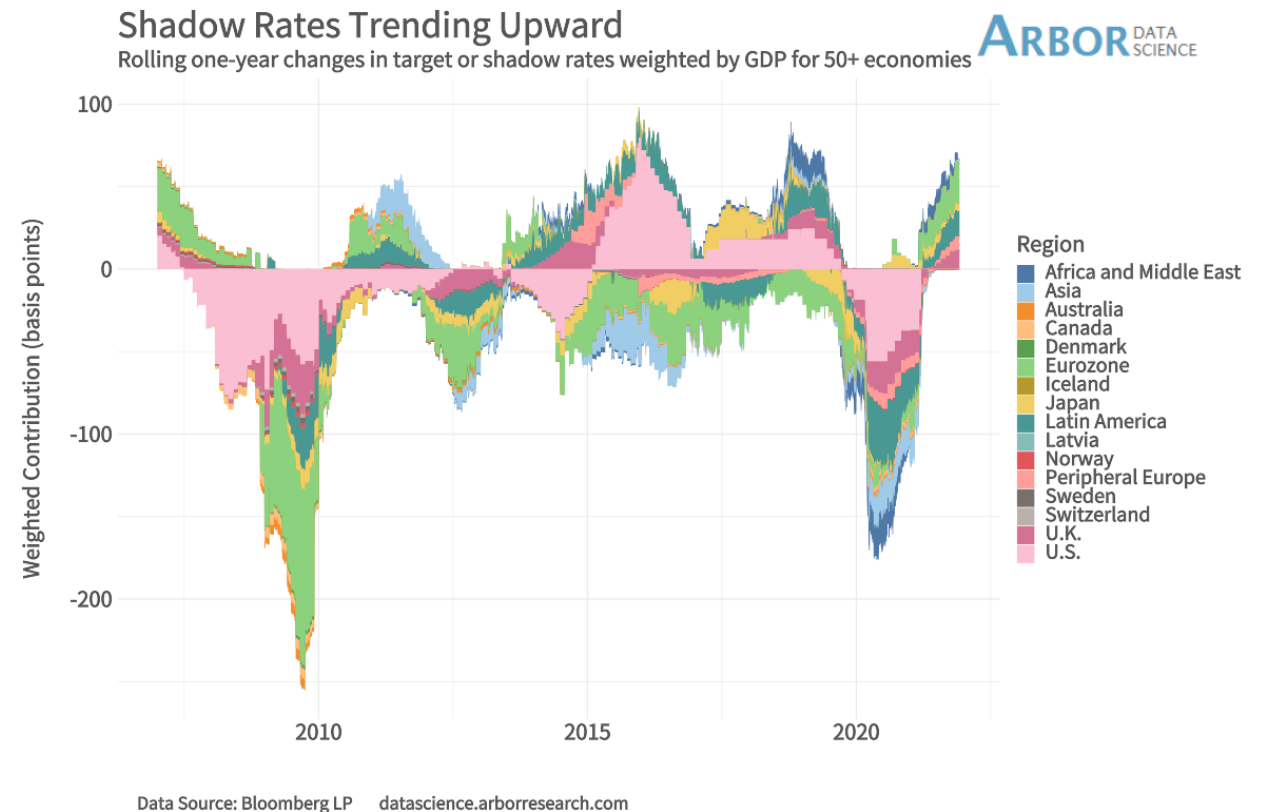
Central Bank News

- Jerome Powell has warned that the Omicron variant could worsen inflation and that the Fed will consider [ramping up bond-buying](#).
- “Transitory” dealt a blow as Fed will [retire the term](#).
- Inflation has made it to Europe with Germany seeing 6%. The ECB remains hesitant to act and [insists it will pass](#).



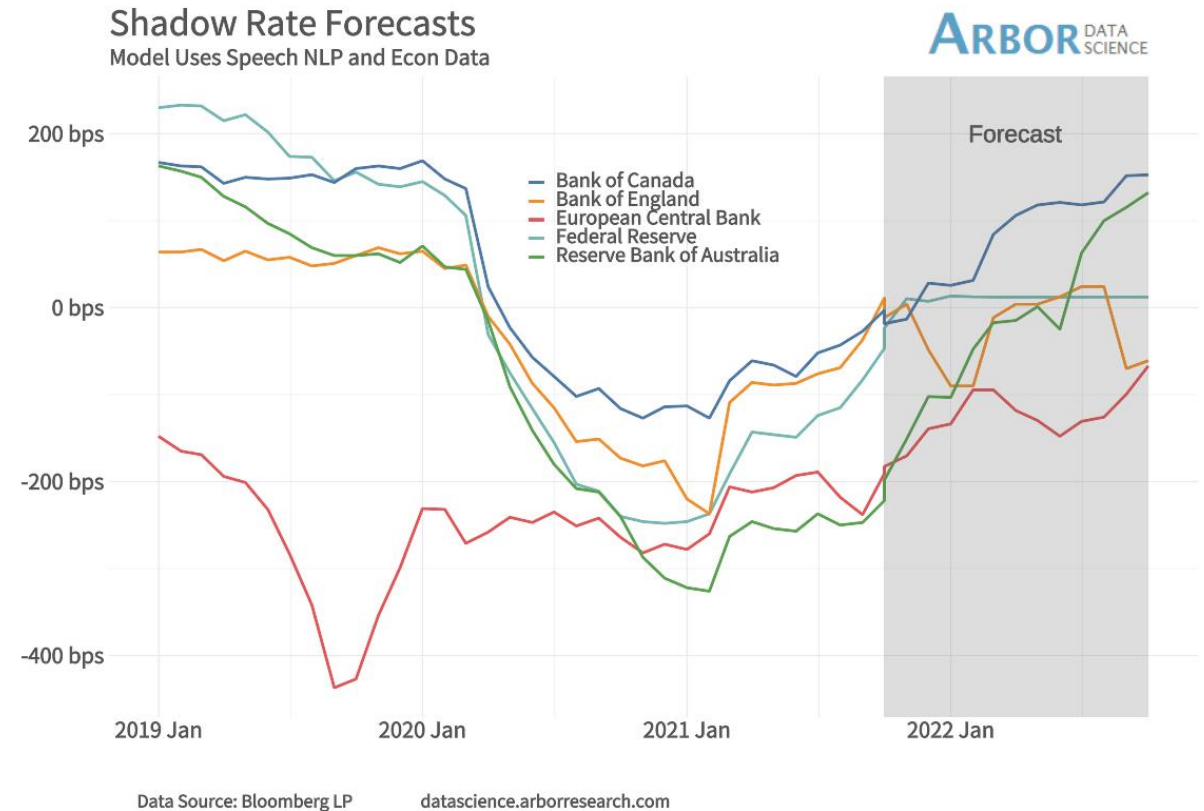
Shadow Rates

- Shadow Rates have begun to tick up across the board, especially as larger economies begin to taper asset purchases and hike rates.
- The United Kingdom's rates are the latest to have increased on a one-year basis.
- The Fed taper began last month and as a result, the US shadow rate will start to tick higher.



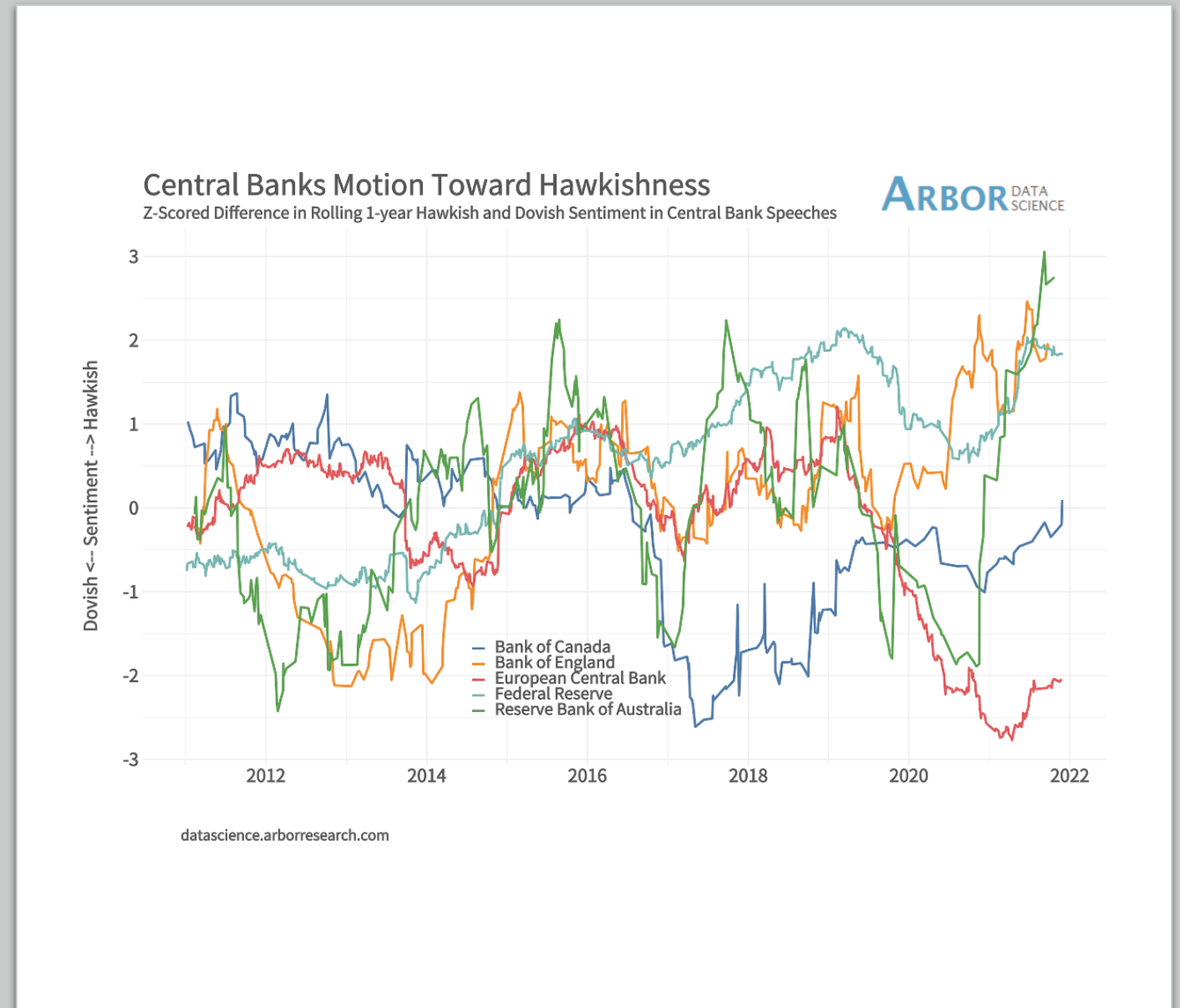
Shadow Rate Forecasts

- This model attempts to forecast the shadow rates (New Zealand Shadow Short Rates) of five major central banks using only natural language processing of speeches by bankers.
- The forecasts suggest a rise across the board over the next year with the RBA's rate the most dramatic in the next few months.



Central Banks Prepare to Reign-In Inflation

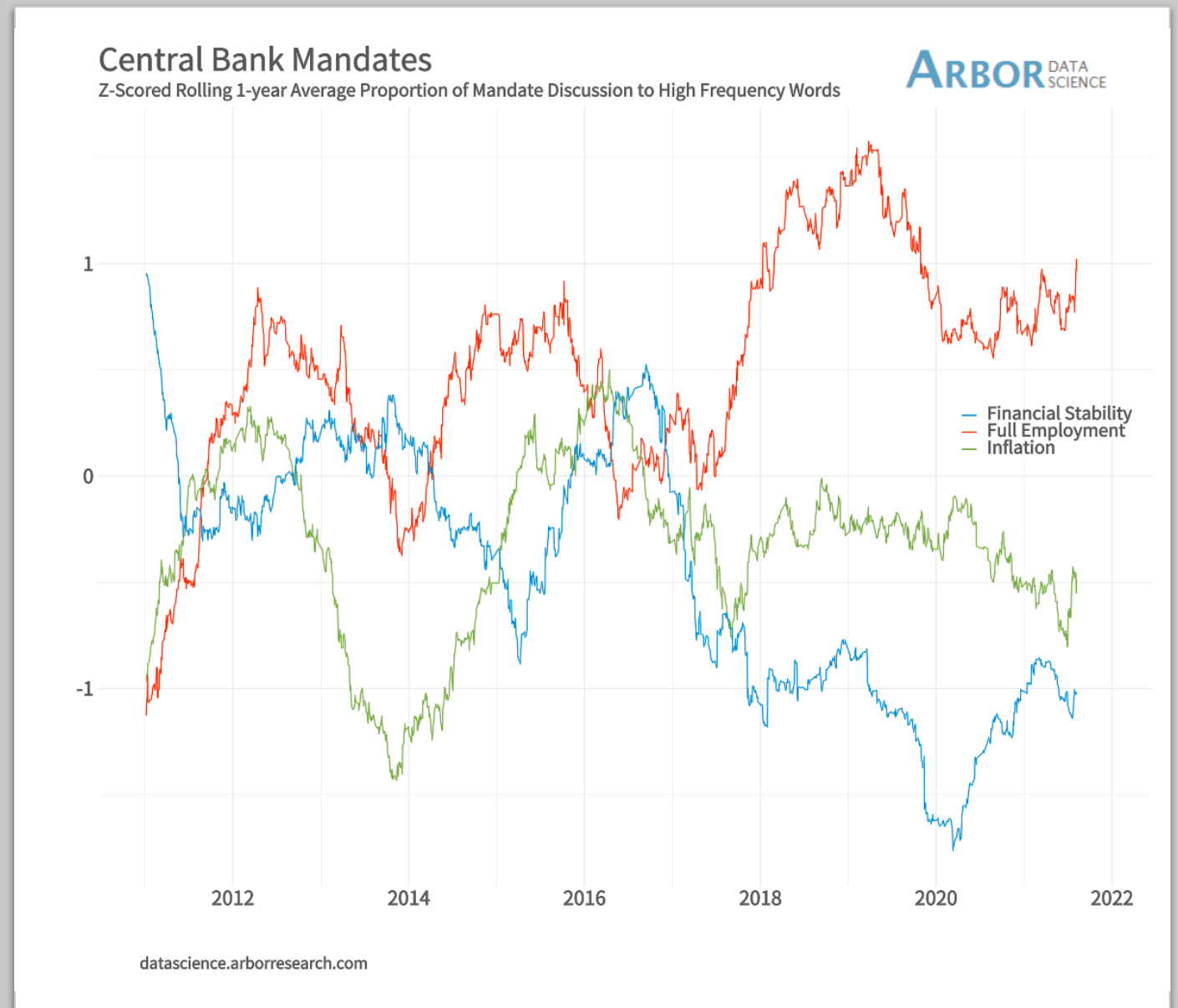
- Inflation hawks are gaining ground in major central banks.
- The European Union is, perhaps, the major exception, but even they have grown more hawkish over the course of the year based on natural language processing of their communications.



Mandates

- Full employment and inflation are neck-and-neck for the Fed's primary concern.
- Financial stability remains a minor concern in the face of high CPI and slowing job growth.

This chart includes the Federal Reserve, European Central Bank, Bank of England, Reserve Bank of Australia, and the Bank of Canada.

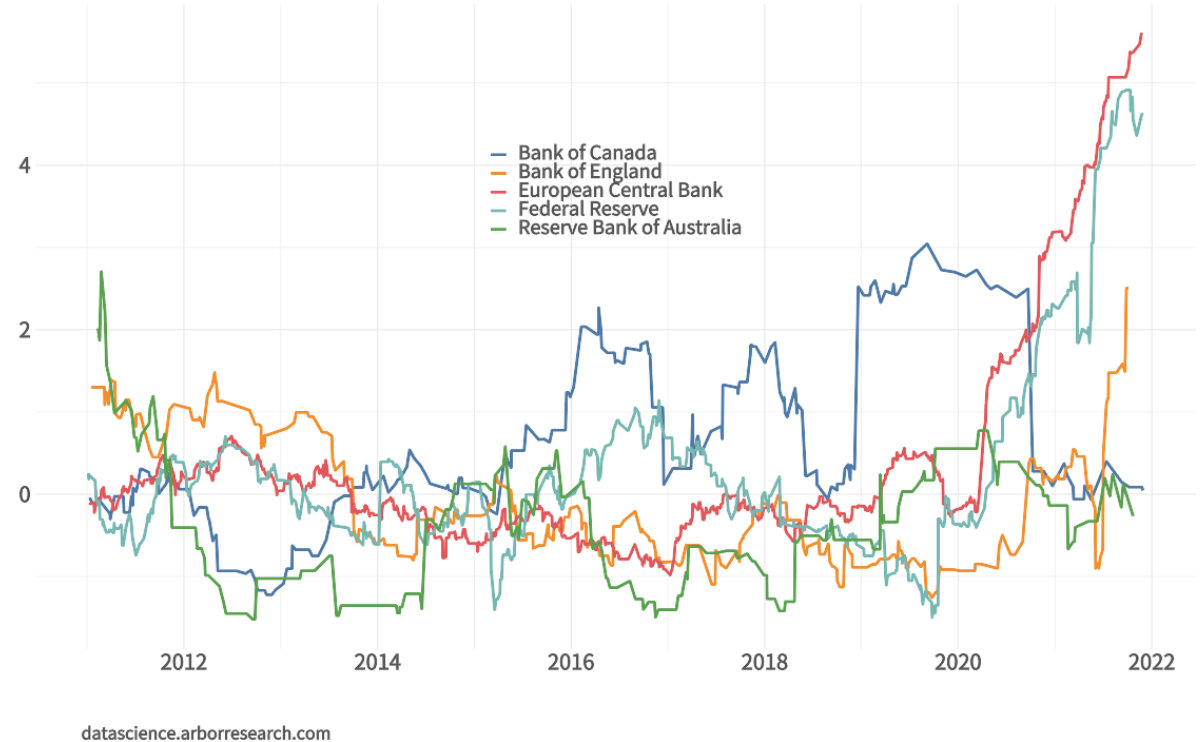


Persistent or Transitory?

- The transitory debate has cooled somewhat. While supply chain issues remain a problem, central banks are less dismissive of higher prices. We've seen this reflected in recent Federal Reserve members' speeches, however, the ECB seems more reluctant to change course.
- This trend is likely continue with it apparent supply chain issues won't be gone anytime soon.

Central Banks Moving Away From Transitory Narrative
Z-Scored Rolling 1-year Average Ratio of Transitory to High Frequency Language in Central Bank Speeches

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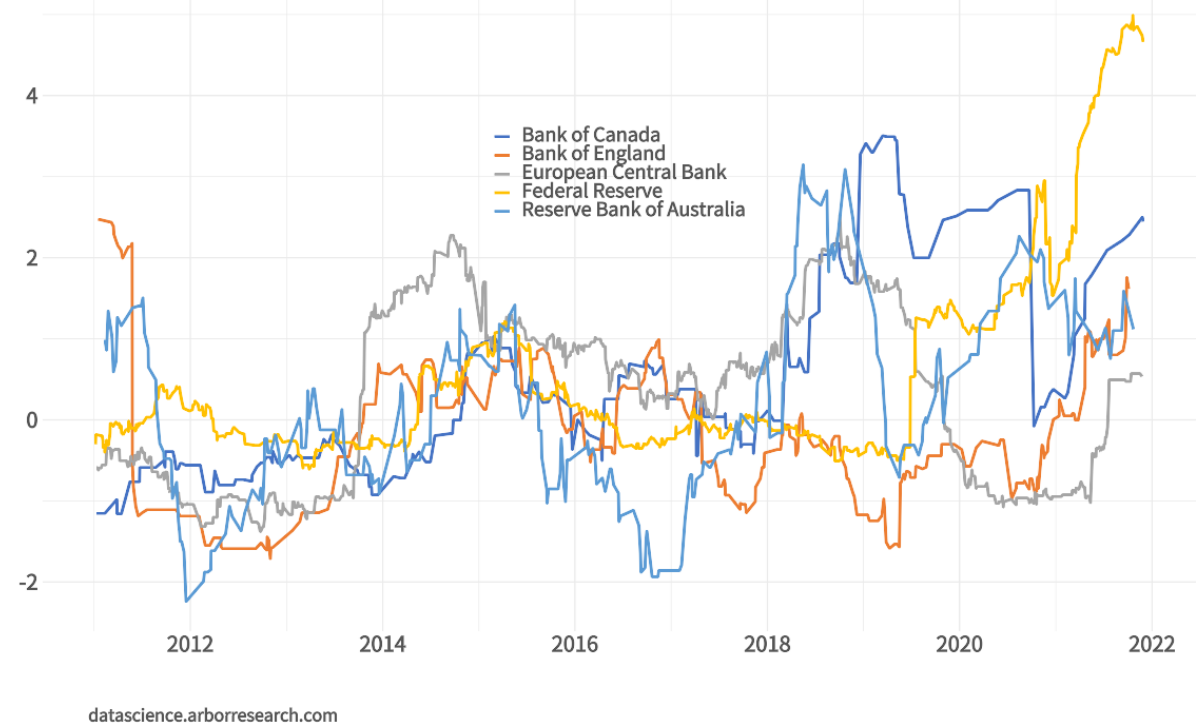
Passivity

- The Fed is slowly coming down from its passive high. For now, the measure remains elevated.
- Passivity is higher across the board as central banks are cautious to make policy changes.
- We expect this trend will reverse now that the Fed is taking decisive action.

Fed Still Ultra-Passive Compared to Peers

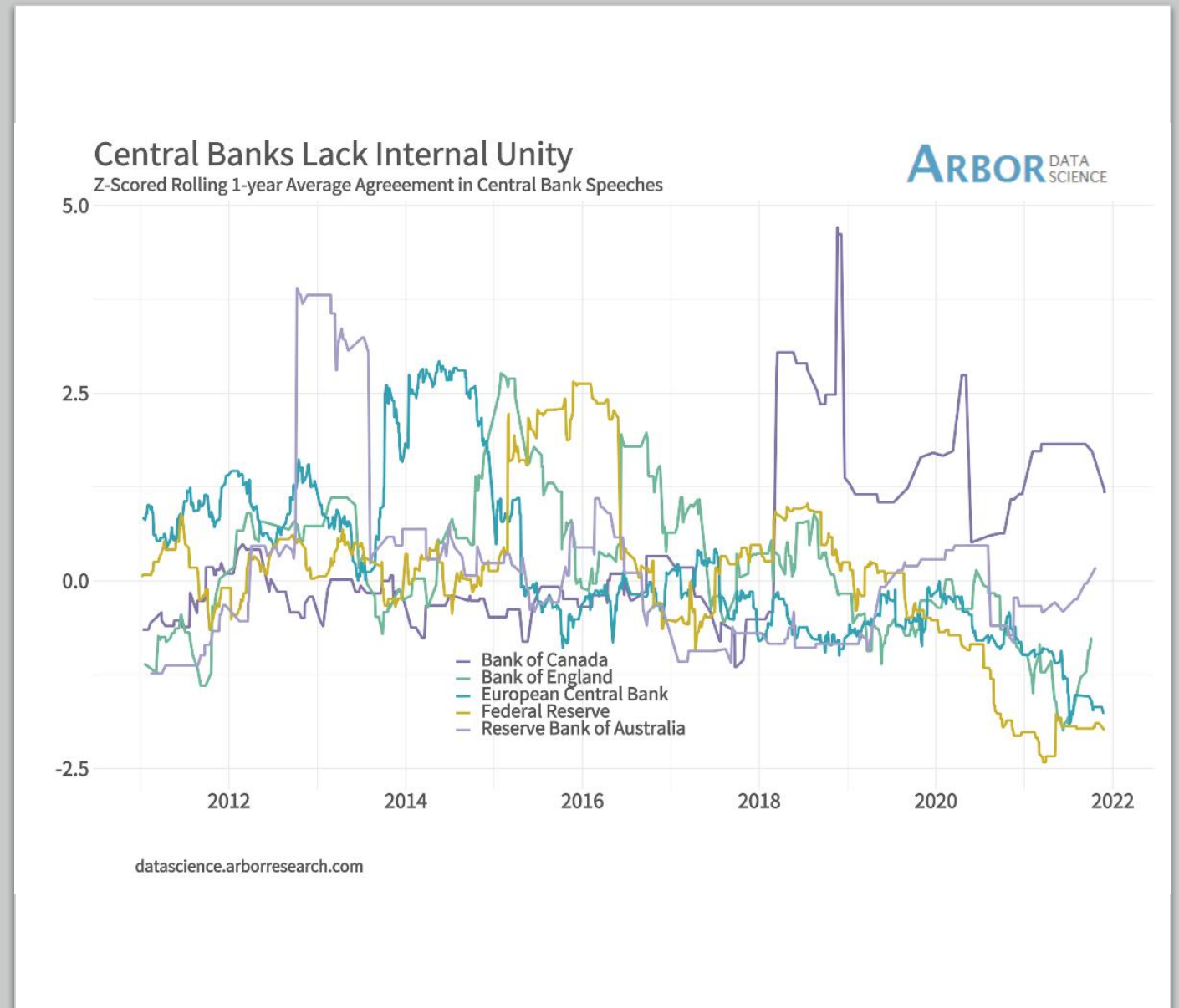
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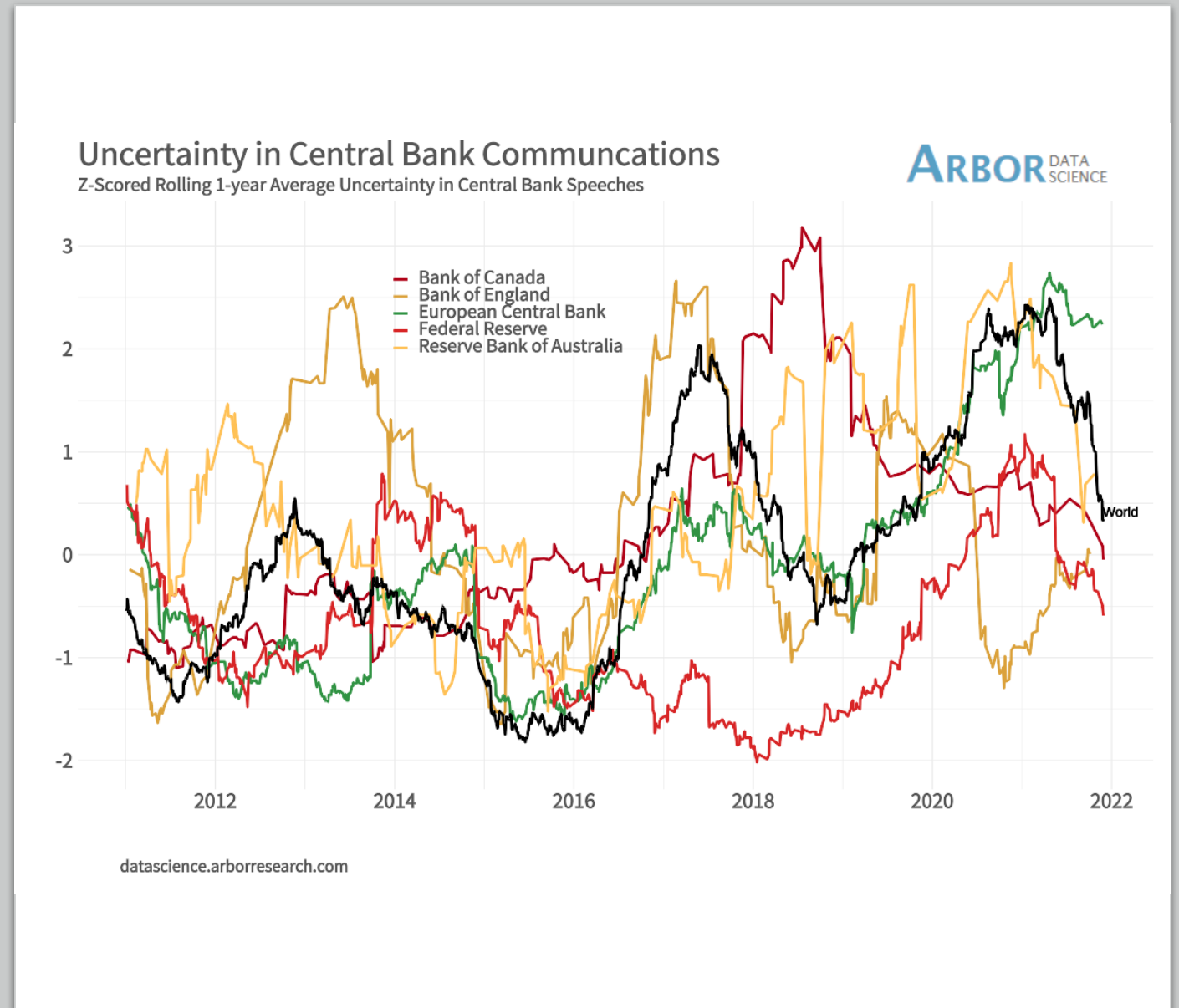
Agreement

- Broadly, agreement has declined steadily since the middle of last year indicating some level of disagreement over when to taper/raise rates.
- The Bank of Canada, and more recently, the RBA are exceptions both with above-average agreement.



Uncertainty

- The Federal Reserve and Bank of England are about as uncertain as could be considered “normal”.
- The other three central banks we track as well as a worldwide average are *more* uncertain than average, particularly the ECB. They are still over 2 standard deviations more uncertain than average according to analysis of their speeches.



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Give us a call for more information about our services and products

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