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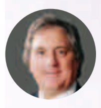

THE VIEW

RICHARD HARRIS

The trouble with spin

Finance chiefs and central bankers are masters of the art, but care is needed to ensure audience still listening when it comes to market signals

On a balmy Saturday afternoon in October 1983, then financial secretary John Bremridge faced the world's press. Bremridge was the former chief executive of John Swire & Sons and was known for a brusque manner that befitted his early days as an officer in the British Army's Rifle Brigade. He faced an expectant crowd, eager to hear his plans for the Hong Kong dollar, which had taken a severe beating over uncertainty about the Hong Kong handover.

He outlined a complex but elegant plan devised by local economist John Greenwood which is known as the currency board; what we call the peg. The peg mechanism was self-sustaining and would require relatively little intervention by the authorities in the markets. Even today, only about five people understand how it works and they are not permitted to travel together in the same plane.

At the end of the statement, a smart American journalist at the back of the room put up his hand and asked an impossibly difficult question. Time stopped as the room suspected – and most of his staff realised – that Bremridge, not being a finance specialist, could not possibly have a command of how the peg would work. But to show any sign of weakness at this point, after a month of frenzied trading, meant the day would be lost.

Bremridge pointed to the report and answered a different question. The journalist persisted, Bremridge repeated. The journalist asked one more time and Bremridge said in a firm voice that the answer was in the appendices in a footnote and the journalist would be best advised to go away and read it. Bemused and befuddled, the journalist sat down. Bremridge carried the day by following central banker lesson 101 – anything said with authority is correct.

They must lie as convincingly as any diplomat and remain above the fray

Since time immemorial, central bankers have talked the markets up and down. During difficult times, their job is to talk the markets up, as then US Federal Reserve chairman Ben Bernanke did in 2008 during the global financial crisis. At other times, they may talk markets down to dent irrational bullish enthusiasm. Central bankers must be masters of spin. Truth has no place when sending signals to the markets. They must lie as convincingly as any diplomat and remain above the fray, forming a kind of grand diplomacy as they discuss lofty matters.

Thirty-one years after Bremridge's press conference, our de facto central bankers seem to be talking down the market at a rather inappropriate time. Financial Secretary John Tsang Chun-wah painted a very gloomy picture of the city's prospects in his weekend blog, indicating economic growth quite significantly below his earlier forecasts on top of rising unemployment, falling retail sales and increased political risk. He is concerned about international speculators.

John Bremridge knew anything said with authority is correct.

The international speculators, sometimes known as the hedge funds, are a big worry for central bankers who see them as a personal slight. They prey unfairly on countries that have put themselves in a vulnerable position by exercising poor economic management. The international speculator is actually the response of global financial markets to inefficient and incompetent economic policy, rather like the way the sea will pick out a weak band of rock in a cliff.

Tsang's article, "The Perfect Storm", is a classic central banker strategy of talking the market down in a roaring bull market to cool things off. It is true that property prices are still close to highs, and the Hong Kong dollar is quite strong, but perhaps he knows something that we don't?

No sooner had this broadside been fired than the head of the Hong Kong Monetary Authority, Norman Chan Tak-lam, was reported as saying that higher interest rates in the United States may encourage capital to move out of the region and back to the US. One senior Hong Kong finance leader being bearish is unfortunate. Two may be careless, unless they are sending a signal to the markets to lowball expectations.

Central bank utterances must be treated with great respect; it is a dangerous game to make statements that may be seen as market signals. Every word from Federal Reserve chairman Janet Yellen is dissected and measured for policy direction. If they are talking the market down, we must accept them at face value.

Their words have much weight and they have to be used sparingly and precisely. Central bankers can't afford to be taken out of context too often because when, eventually, they do need to talk up the market, will it listen?

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Illustration: Sarene Chan