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**THE VIEW**  
RICHARD HARRIS

## Squabbling over rates is just noise

**Markets want a clear decision, not a chorus of dissent from policymakers, which makes the job of figuring out the impact of a rate rise even harder**

The principle of collective responsibility is a key feature of the British cabinet; the group of ministers that effectively act as Britain's politburo. The principle has been developed over centuries as a way of ensuring that all members of the cabinet support all collective decisions in public. If you want to be on the team, you get behind the team decisions. If you don't like it, go forth and multiply.

So it is becoming an increasingly unseemly occurrence for various governors of the US Federal Reserve Board to be competing for airtime about their views on the impending rise in interest rates. This is the single most important known event to affect financial markets in a year or two and it is rapidly descending into an omnishambles.

On Tuesday, Eric Rosengren, the president of the Boston Fed and a known "dove", came out saying that what was happening in China might delay the rise in interest rates.

The comments assisted a fall on Wall Street of nearly 3 per cent and Rosengren isn't even a voting member of the Fed. Bill Dudley of New York, who is a voting member, had previously said rate rises were less likely because of the China slowdown. Then in a long-awaited speech at the central bankers' jamboree in Jackson

Hole last weekend, Fed vice-chairman and former dove Stanley Fischer said that overseas events were unlikely to affect the Fed's decision.

Call me old-fashioned, but I cannot imagine this kind of ill-discipline happening under the leadership of the respected Paul Volcker, Alan Greenspan or Ben Bernanke. Janet Yellen, the Federal Reserve board chairman, is increasingly giving the impression of being in charge but not in control. She didn't even bother to join the Jackson Hole meeting.

One day we get good economic figures out of the US and the market thinks rates are going up. The next minute, markets get spooked about China's hard landing and the message from the Fed is irresponsibly mixed. So it is not surprising that the VIX index of volatility is at its highest in four years. These most intelligent

people, intimately determining a great issue of our age, are playing parish-pump politics in front of the microphones like second-tier presidential candidates.

The markets want a single clear decision, not a chorus. It is bad enough figuring out the impact of a rise in interest rates without having a chorus of dissent from the policymakers themselves.

This disease of multiplicity is not confined to the Fed. The other set of policymakers who resemble Dr Dolittle's famous "pushmi-pullyu" character live in China.

In one corner, you have the Commerce Department which wants a whopping great devaluation of the yuan to assist exports; in the other, Chinese central policy demands a strong currency and an apparently floating interest rate. In the third corner, currency intervention sucks liquidity from the economy, so interest rates need to come down.

Yet from the People's Bank of China in the fourth corner, there is a distinct lack of conviction to use its policy weapons, as if by doing so it will lose face. If rates are in the 4 per cent range, a drop in rates of half a percentage point is nothing. And how is a mere 0.5 percentage point cut in bank reserve requirements going to help when many banks have to retain

19 per cent or so of their deposits? Where is the Big Bazooka?

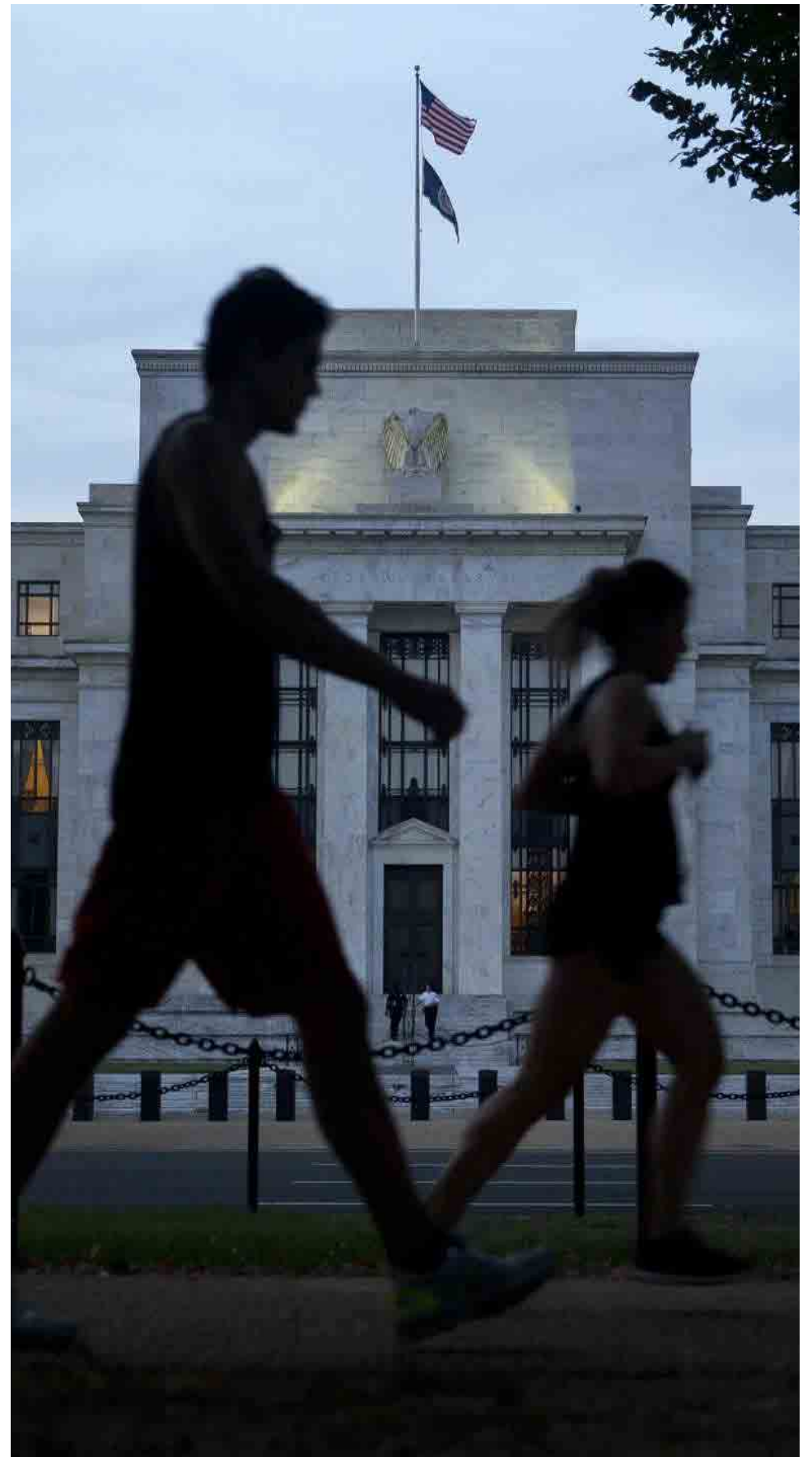
The Fed has learned that the way to use your firepower is to move rates significantly enough to shock the market. If you use your policy tools in a piecemeal manner, the market becomes used to it and each successive bullet has less impact. Allow the market to find its true level, even if it overshoots, and it will recover stronger than before. Insist there is nothing wrong and you will eventually run out of firepower and credibility.

It is just something that we investors have to put up with as we tramp through the battlefield like the poor infantry, picking our way through shell bursts. But comfort comes from looking at the raw data.

At the moment, US economic data looks pretty good. European economic data is improving. Interest rate rises and a fall in Chinese demand may well dent economic growth, but the meltdown in commodity prices and inflation will certainly encourage it.

The investor has to weigh up these differing factors and then make his bets. And my bet is that the squabbling is just noise; and that the economic factors will largely cancel themselves out. We are currently in a consolidation phase within an extended period of painfully sluggish world growth – but it is growth indeed.

Richard Harris is the chief executive of Port Shelter Investment Management



The disease of multiplicity is not confined to the Fed, China policymakers suffer from it.

3%

The amount Wall Street fell after a Fed member said China volatility might delay a rate rise