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THE BANKER'S COMMENT - JEAN-PIERRE PATAT

A former central banker looks at the news

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Figure of the month: 2.97 average rate for home mortgages in France, lowest in the euro zone (zone average: 3.22).

The 'bank note printing press' myth.

This is an expression much loved by our economic commentators when talking about US monetary policy. According to them the Fed runs this famous press full steam ahead with its massive 'unconventional' repurchasing of State bonds. If the words have any meaning at all, it signifies that the Fed is creating an abundance of liquidity. In that respect, what does the evolution of American money aggregates tell us?

Although the evolution of the M1 'tight' aggregate (coins, bank notes and sight deposit accounts) is characterised by quite steady growth in the period 2009-2011, that of the 'wide' M2 aggregate (more representative of currency in circulation) definitely shows an acceleration (8.5% annual rhythm in 2011 compared to 6% in preceding years). Even so, figures remain modest. Nonetheless, they are higher than those seen in the euro zone where the M3 (broad money index) went from 8% in 2006 to 2-3% in 2008-2011, moving up a little to 4% in the first quarter of 2013. Is the Fed involved in all of this?

Modern central banks' monetary creation power is virtually zero, since they do not handle private or business deposits; nor do they distribute credits to those economic agents. The Fed's purchasing of bonds is carried out in secondary markets and in the main the sellers are banks, meaning that these operations feed bank liquidity and not money in circulation. Given the size of these operations though, it is possible (certain even) that some non-banking 'institutional investors' (savings funds, retirement funds, unit trust funds) are also involved in central bank purchases and this would serve to feed the non-banking agents' cash balances, hence monetary creation.

The figures confirm that we are far away from the 'bank note printing press' which is said to be pouring cash into the economy. Were that the case, and in view of the sum of the 'unconventional operations' in which the Fed is engaged (about 1,000 billion dollars annually), the US monetary mass would have exploded.

Despite this, the expression flourishes and serves to stop any reasonably deep analysis. In passing, it also blows an indirect raspberry to the cautious ECB.

Upheaval in the 'growth models'

Recent figures and information run against what is the backbone of current analyses of the global economy: the BRICs, these forerunners of growth and the redistribution of economic power, are stagnating. The economies of India and Brazil are seeing significant slowing, not to mention Russia which has close to negative growth. In China, the braking might well be sharper than revealed in official statistics. And to add to the shakeup of values taken for granted, in Spain (would you believe it), the country where it is considered clear that the savage austerity imposed by Europe is killing growth, unemployment figures have been falling significantly over the last three months.

Should we therefore seek other models? In France we are at it in any case. A somewhat ridiculous 'Japomania' is developing in view of the first quarter's growth figures which are neither fantastic nor exceptional since similar beautiful figures have several times been observed in the past. Results which are laid at the door of a government that has been in place since ... the end of December 2012. But what above all arouses admiration and envy is the grotesque promise of the Governor of the Bank of Japan to create inflation to promote growth! As though inflation could be manipulated like a tube of toothpaste, as though it were a condition for growth.

Upsetting, disappointing financial markets.

Following several months of surges, markets have lost ground in recent days. Let's face it, the ups and downs so unrelated to economic reality are an example of the wholly useless mini-bubble. Some investors used the abundant liquidities furnished by central banks to buy shares – providing higher returns than bonds whose yields have become very low. In other words, central banks were massively buying debt bonds that banks and other more-or-less speculative investors sold in the markets to switch the funds into share holdings. The stock exchange rises could have been more limited. Now, though, we have to consider behaviours which affect all investors, even actions which in principle should be out of the picture, such as 'short termism' and the lemming spirit. Savings funds and retirement funds fell into step and it is to be feared that they might fall into step again, but this time downwards. A downward move provoked by incomprehensible suggestions by the President of the Fed, from which we are led to understand that the hose pipe's flow in liquidities could be reduced – something that might be expected, something that swells the profits of speculative funds but which should long ago have been integrated into the strategies of reasonable investors.

Names of the month: Jörg Assmissen and... Jens Weidmann.

Oh yes – him again. As we said last month, he is going to the German High Court regarding the legality of the ECB's State debt bond purchases, something he qualifies as a disguised financing of public treasuries. To top it all, Mario Draghi, the institution's president who is not known to be facetious, has sent as delegate to the High Court to plead the cause of the Frankfurt institution none other than the German member of the Board, Jörg Assmissen. On the surface, there is nothing abnormal in this. A member of the Board of Governors should represent neither his country nor his institution, they all sit as independent experts. Except that we might well wonder if there is not some play acting here, with Jens Weidmann keeping his reputation as 'commander' of the true monetary policy of the Bundesbank over which he presides, but without really believing in the success of the action and his own posture.

Is the euro too strong for European Industry?

When asked about the future of European industry, the European Commissioner for Industry described the routes needed for a strengthening: developing innovative technologies, developing the green economy in several sectors, and so on. One cannot fail to agree with these indispensable non-negotiable orientations. Why then, a few minutes later, did he fall into complete contradiction, regretting that the euro is too strong for European industry? Yet, a weak currency only favours the competitiveness of regular products, run-of-the-mill ones rather than high technology ones. The example of Airbus which keeps building commercial success should open eyes in this archaic debate.

Each month, Jean-Pierre Patat, Honorary Director-General of the Banque de France and a TAC advisor, offers his own point of view,on the economic and financial news, with total editorial freedom . Email : jppatat@tac-financial.com