

# Central Bankers Tell the World Borrowing Costs Are Headed Higher

By

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Global central bankers are coalescing around the message that the cost of money is headed higher -- and markets had better get used to it.

Just a week after signaling near-zero interest rates were appropriate, Bank of England Governor Mark Carney suggested on Wednesday that the time is nearing for an increase. His U.S. counterpart, Janet Yellen, said her policy tightening is on track and Canada's Stephen Poloz reiterated he may be considering a rate hike.

The challenge of following through after a decade of easy money was highlighted by European Central Bank President Mario Draghi's attempt to thread the needle. Financial markets whipsawed as Eurosystem officials walked back comments Draghi made Tuesday that investors had interpreted as signaling an imminent change in monetary policy.

"The market is very sensitive to the idea that a number of central banks are appropriately and belatedly reassessing the need for emergency policy accommodation," said Alan Ruskin, co-head of foreign exchange research at Deutsche Bank AG.

The Federal Reserve has been setting the tone in the trend toward a re-normalization of monetary policy and Yellen gave no sign that her plans for tightening were changing, even as she acknowledged that some asset prices could be rising more than warranted by fundamentals.

## **Fed Expectations**

“We’ve made very clear that we think it will be appropriate to the attainment of our goals to raise interest rates very gradually,” she said on Tuesday, amid asset valuations that are “somewhat rich if you use some traditional metrics like price-earnings ratios.”

Yellen was the only major central banker from developed economies who didn’t attend the ECB’s yearly conference in Sintra, Portugal, where her counterparts from the U.K. and Canada signaled they could soon be following the U.S. on the path of rate hikes.

Carney said on Wednesday that the BOE may need to begin raising interest rates and will debate a move in the next few months. His comments mark a shift in emphasis after he signaled last week that it wasn’t yet the time to start that process, a statement he clarified was his position as of when the officials last met on June 15. The pound jumped the most since April.

Bank of Canada Governor Poloz reaffirmed his tightening bias, pushing the Canadian dollar higher and almost doubling the market-implied chance of a hike at the central bank’s next decision on July 12.

## **Job Done**

“It does look as though those cuts have done their job,” Poloz said, according to the transcript of an interview with CNBC. “But we’re just approaching a new interest-rate decision so I don’t want to prejudge. But certainly we need to be at least considering that whole situation now that the excess capacity is being used up steadily.”

And while rate increases are off the table for the ECB until well after it eventually ends bond purchases, Draghi got a taste of just how difficult it will be to steer a course out of extraordinary stimulus without unsettling markets. His speech sparked a rally in the euro and bond yields on Tuesday, leading officials familiar with the central bank’s strategy to try to contain what they saw as an excessive market reaction.

Underpinning Draghi’s caution in signaling an exit is the fact that, while the euro-area recovery continues to strengthen, inflation is still weak and wages and investment increases remain subdued. That’s a factor also highlighted by Bank of Japan governor Haruhiko Kuroda, who unlike his counterparts is set to keep the foot on the pedal of monetary stimulus.

The BOJ has pushed central-bank activism further than its peers. After more than four years of massive bond buying and with inflation still far from its 2 percent target, the central bank has embraced an active control of the yield curve. Still, Kuroda admitted the liquidity glut hasn't been enough to spur companies to spend more.

"Since the introduction of qualitative and quantitative easing, economic conditions have improved and firms have experienced record high profits," Kuroda said. "However, firms are still cautious about increasing spending, including investment."

**Full Report:**

<https://www.bloomberg.com/news/articles/2017-06-28/central-bankers-tell-the-world-borrowing-costs-are-headed-higher>

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