

Monday, December 02, 2013

Central bankers are on the docket this week. Those scheduled to release official policy decisions include the European Central Bank (ECB), the Bank of England (BOE), Reserve Bank of Australia (RBA), and the Bank of Canada (BOC). The central bankers will release any interest rate adjustments and their overall outlook for world economic growth.

Additionally, the U.S. nonfarm payroll report on Friday will no doubt cause a good deal of volatility.

WHAT ARE THE CENTRAL BANKERS GOING TO SAY AND DO?

The statements made by central bankers still cause significant impacts on the markets. Because of this fact, the obvious question is – what are the various central bankers going to say and do?

EUROPEAN CENTRAL BANK

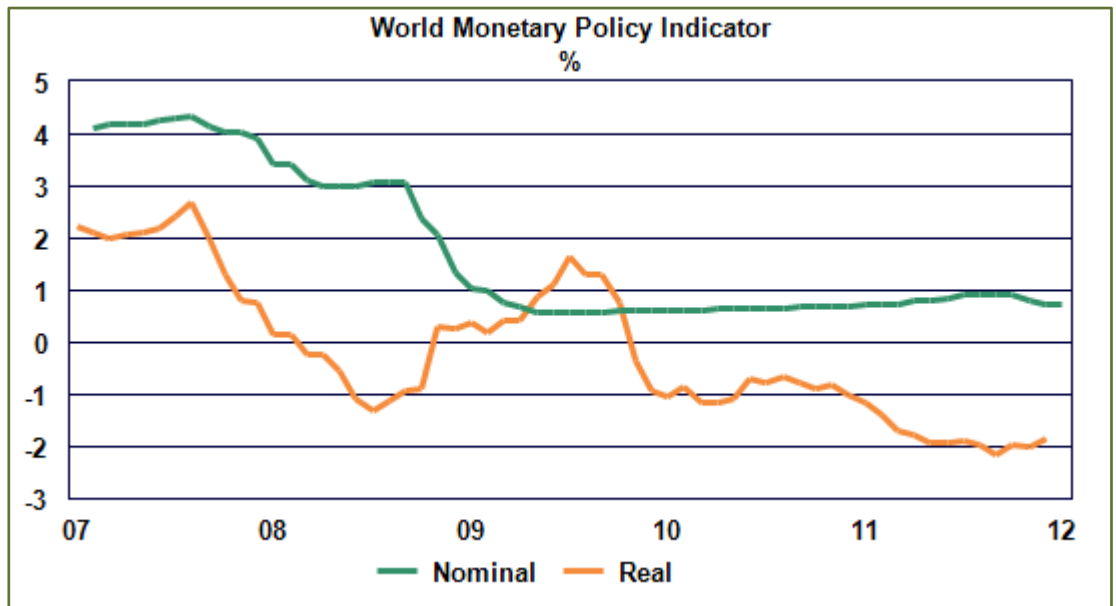
The ECB is on the top of the list of speculation regarding central bank policy. Many expect the

ECB to announce some further intervention in the long-term lending markets, perhaps in the form of a BOE-style funding for lending scheme. Essentially, some form of a funding for lending scheme would require the ECB to provide banks with funds on the basis that those funds are lent to businesses. With the market expecting some ECB action Thursday, the risks are to the downside. There is not much upside risk for the ECB to announce additional easing other than what's already priced into the commodities and other asset markets. Should the ECB disappoint, heightened volatility will likely be the result. Very few market observers expect the ECB to change their target short-term interest rates.

BANK OF ENGLAND

Market participants generally do not expect much new from the BOE this month. The BOE is expected to hold their targeted short-term borrowing rate at 0.5% and their asset-purchase programme at £375 billion. Consistent with the U.S. Federal Reserve, the BOE is not anticipated to give up its expansionary monetary policy until the third quarter of 2015 at the earliest. The risks are to the downside for the BOE, based upon market participants' expectations, unless the BOE announces further monetary policy intervention. This is highly unlikely, as the risks of intervention would increase the downside risk to other asset classes.

RESERVE BANK OF AUSTRALIA



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The Reserve Bank of Australia (RBA) is first up to make their announcement this week, on Tuesday. Most market participants do not expect the RBA to announce any changes to interest rates. Rather, market observers expect the RBA to devalue the currency. Essentially, the RBA would like further stimulus to come in the form of a devalued Australian Dollar instead of through interest rate reductions. Whether this will happen in any reasonable time frame is risky. Some market volatility is expected from the RBA's statements, be it on the upside or downside.

BANK OF CANADA

The Central Bank of the Canada (BOC) is anticipated to keep its short-term lending rate at 1%, where rates have remained since 2010. Unless the BOC comes in right in line with expectations, any policy announcement will heighten market volatility. In contrast to the previous three mentioned central banks, market observers' expectations are much more diverse, which means that whatever the BOC announces will likely increase volatility. The question is – in which direction will the increased volatility move precious metals and other asset prices?

HOW MUCH VOLATILITY IS CAUSED BY CENTRAL BANKS?

With the amount of speculation surrounding central bankers' policy moves at an elevated level, the obvious question is – how much volatility will come from the announcements?

Based upon historical observation, the ECB and RBA decisions may increase volatility by 2% to 3%, and perhaps up to 5%. The BOE and BOC the volatility effects may be more modest at around 1% in either direction.

Central banking policies are set to take center stage this week. How much volatility will stem from misguided (or better put, well intentioned) policy moves will likely be a major speculation topic until decisions are made. One issue is relatively certain – volatility will increase. It's the direction of the volatility that's more uncertain.