Central bank meetings: analysis by Axel Botte, international strategist on the decisions announced.

Fed: Monetary policy enters a fine-tuning phase.

The Fed raises rates by 50 bp as expected. Disinflation is underway but a further adjustment is still on the cards with probably two 25bp hikes in March and May, given the plural used by Jerome Powell to indicate the next moves. It is worth noting that the 25 bp move, after several 50 or 75 bp hikes, reflects a more fine-tuned US monetary policy from now on. It is also a trade-off between the weaker economic data of late and a still very low unemployment rate. The bulk of the monetary tightening is in place and the reduction in uncertainty about the path of interest rates reduces the volatility that encourages risk-taking in the markets… even if the easing of financial conditions may seem premature in view of the residual inflationary risks, which are essentially linked to the lasting imbalance in the labour market (the low growth of the active population reduces the potential for growth, which contributes to endogenous inflation). It should be noted that Powell has not been overly zealous in opposing the rise in equities and the fall in rates, spreads, and the dollar, which are a priori favourable to a rebound in growth and therefore inflationary.

ECB: An ineffective gesture

Mrs Lagarde reiterated her December message suggesting that a further 50 bp hike would come as early as the March meeting. This commitment to raise rates seems unconditional despite a supposedly "meeting by meeting" approach. The ECB also warns governments that an overly expansionary fiscal policy would mean a tightening of monetary policy. The tone of the press conference is resolutely restrictive, but the markets finally ignore it completely. The Bund fell below 2.10% and sovereign spreads tightened violently. The ECB seems to have no control over the interest rate markets beyond the overnight rate. Real rates are plunging which means that markets are interpreting the ECB's decision as an easing move. Inflation remains high though even if energy prices are contributing negatively lately (lower oil prices, government policies). However, the core inflation rate of 5.2% argues for a more restrictive policy because of the risks of wage drift. The ECB has other instruments to conduct its policy, notably the QT to influence long-term rates. Its calibration, 15 billion per month between March and June, will probably be reviewed during the year. The ECB stressed that the effect of its monetary tightening was essentially through bank credit, which sounds like an admission of powerlessness in the face of the rally in risky assets and rates. Finally, as expected, the ECB will use the proceeds of its QE portfolio to favour the most virtuous issuers in the fight against climate change.

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