

'This newsletter is translated from the Japanese edition distributed on January 26th.
Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

2018: A year of challenges for major central banks?, etc.

Global Risk Watch Vol.34
31 January 2018

=====

«index»

1. # 2018: A year of challenges for major central banks? (Tsuyoshi Oyama)
2. # Towards the enhanced Pillar 2 (Shiro Katsufuji)
3. # Recessions and the Flattening Yield Curve (Toshikazu Kumagai)
4. Seminars, Conferences & Publications

=====

1. Overview Macroeconomic and Financial Risks (Trends & Topics)

2018: A year of challenges for major central banks? (Tsuyoshi Oyama, Partner/Head of Center for Risk Management Strategy (CRMS) at Deloitte Touche Tohmatsu LLC/Deloitte Asia Pacific Risk and Capital Management Leader)

As we enter 2018, interest rates in developed countries have finally started to move. 10-year US Treasury yields topped 2.6% and the rising long-term interest rates in the EU and even Japan are notable. In a robust economy such as we are currently experiencing, (and as the labor market has tightened in response) it would not have been unusual had long term interest rates started to rise long before now. However, prices showed no signs of rising in 2017, and consequently long-term interest rates have stayed and the yield curve has become flat.

Even now, the signs that prices are starting to move upwards have not been particularly strong. Still, a few indicators have emerged regarding long expected price movements that have generated excitement: for example, the January US core CPI numbers, which showed an uptick of 0.3% MoM. Also, concerns from FRB officials that the recently passed tax reforms will heat up the US economy, driving up wages and prices, and subsequently their monetary policy would be left behind the curve, could also be the cause of spreading consciousness about prices rises in the market.

Of greatest interest are the recent hawkish remarks from central bankers and the corresponding nervous reaction from the market was observed not only in the US, but also in EU and even in Japan. In the EU, although prices are well below the current target, the unemployment rate has fallen to 8.7% and the economy has been kept very robust. Against this background, the ECB has begun to hint that there might be further tapering or perhaps they will

stop buying assets following the end of current tapering phase. As a result, the euro has gotten stronger and long term interests have also turned upwards. In Japan as well, even in remarks related to a very technical event like the BOJ reducing purchases of super-long bonds in its market operation can be seen as a sign of a shift in their monetary policy, causing long term interest rates to pop up. Both these examples highlight market nervousness in the face of possible actions by the central banks.

Meanwhile, John Williams, the current President of the San Francisco Federal Reserve Bank, is reported to be a strong contender for the position of vice chairman of the Federal Reserve Board. In the circumstance of price increase acceleration being likely, this nomination might spur the debate of a new monetary policy framework as he once called for a review of the current 2% inflation target. More specific questions include; 1) should the inflation target level be 2% or changed to be higher, 2) should the inflation target be kept as a hard target or changed to be a soft target, and 2) should the target be inflation rate or price level. This argument has actually been driven by the concerns that central banks with the current framework may not have sufficient measures to protect the global economy should another serious global recession occur. For example, even before inflation rates reach 2%, should a central bank start slowly moving towards normalization of monetary policy so as to secure leeway for future monetary easing? Or, is it more important to take a more cautious stance on normalization to reduce the possibility of a serious recession? Such different and opposite thinking shows a real divide in the debate.

It seems that as the external environment continue to shift and change, 2018 could prove to be a year of monetary policy challenges for the major central banks of developed nations.

[Home](#) | [Security](#) | [Legal](#) | [Privacy](#)

Deloitte Tohmatsu Group (Deloitte Japan) is a collective term that refers to Deloitte Tohmatsu LLC, which is the Japan member firm of Deloitte Touche Tohmatsu Limited (DTTL), a UK private company limited by guarantee, and firms affiliated with Deloitte Tohmatsu LLC that include Deloitte Touche Tohmatsu LLC, Deloitte Tohmatsu Consulting LLC, Deloitte Tohmatsu Financial Advisory LLC, Deloitte Tohmatsu Tax Co., DT Legal Japan, and Deloitte Tohmatsu Corporate Solutions LLC. Deloitte Tohmatsu Group is known as one of the largest professional services groups in Japan. Through the firms in the Group, Deloitte Tohmatsu Group provides audit & assurance, risk advisory, consulting, financial advisory, tax, legal and related services in accordance with applicable laws and regulations. With about 11,000 professionals in nearly 40 cities throughout Japan, Deloitte Tohmatsu Group serves a number of clients including multinational enterprises and major Japanese businesses. For more information, please visit the Group's website at www.deloitte.com/jp/en.

Deloitte provides audit & assurance, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 245,000 professionals make an impact that matters, please connect with us on [Facebook](#), [LinkedIn](#), or [Twitter](#).

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2018. For information, contact Deloitte Touche Tohmatsu LLC.