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Edward Bonham Carter and Édouard Carmignac discuss why QE is a form of 'methadone' for Europe, and whether China is on the 'intensive care ward'

Photo by Guy Bell

Why quantitative easing is a form of 'methadone' failing to re-animate Europe

By Daniel Flynn

Twitter: @danielflynn92

The European Central Bank's (ECB) quantitative easing measures have provided support for Europe by keeping zombie companies alive but are failing to stimulate growth in the region, according to Edward Bonham Carter, vice chairman at Jupiter Asset Management.

In March, the ECB announced monthly asset purchases under QE will rise from €60bn to €80bn and will include corporate bonds, but Bonham Carter warned the central bank is entering "unchartered" territory.

Speaking at a debate with Carmignac Gestion's chief executive Édouard Carmignac, Bonham Carter said the support provided to zombie companies by the ECB's easing measures has led the European banking sector to underperform.

At the start of this year the Stoxx Europe 600 Banks index recorded six weeks of consecutive declines, its worst streak since the 2008 crisis, while this year to 27 April the index is down 14.4%.

"The capitalist mechanism of clearing out marginal capacity and bankrupt companies has not taken place," said Bonham Carter.

"QE is a form of methadone for Europe and is distorting pricing and capacity decisions. We still have low nominal growth and high levels of debt which look set to stay.

"We do not have a playbook for how we are going to get out of QE and are in unchartered territory. The central bankers do not know either, no-one knows."

Carmignac is similarly sceptical on the effectiveness of central bank policy, adding the ECB and Bank of Japan, which introduced negative rates in January, are running out of room for additional policy measures.

"The central banks have pulled a lot of rabbits out of the hat, but the rabbits they have been pulling out recently are not really doing much," he said.

"Europe has been in a period of no growth or very low growth for a long time now, and this can only be exacerbated by the slowdown in China."

QE IN NUMBERS



€1.1trn

Amount the ECB first announced it would pump into financial markets from March 2015

€80bn

ECB announced in March 2016 monthly asset purchases will rise from €60bn to €80bn a month, and will include corporate bonds

25%

The expansion of QE could see the ECB owning a quarter of the €7trn government bond market in Europe

Carmignac said the Chinese economy is "on the intensive care ward", and could export deflationary pressures to global markets.

"China is on shots for uppers through stimulus measures, while also on tranquilisers through exchange controls," he said.

"It has managed to grow but under very artificial measures that aggravate rather than help. We think it is a time bomb that investors should bear in mind."

However, Bonham Carter is more bullish on the country's prospects.

"China's move from communism to relative capitalism has been a giant experiment," he said. "It has never been attempted in such a big country before in such a short space of time.

"There are imbalances and problems of excess capacity and excess investment, but I am optimistic these will be managed.

He added: "There will be crises, but if you look at the industrialisation of Western countries you should not be surprised to see problems, as it is inherent in a capitalist system."