

MARKETS 2016 VIDEO SERIES: IMPACT OF WEAK OIL PRICES ON CENTRAL BANKS

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Will weak oil prices complicate the picture for central banks next year?

I think that weak oil prices, if we're right that weak oil prices do kick in in 2016 once again, then yes it will complicate the picture substantially for central banks. One of the big problems that has been faced over the course of the last few of years is the persistence of disinflationary pressures. One of the reasons why the Bank of England, for example, found it so hard to hike rates was that energy prices continued to the downside. I therefore think that if we see a renewal of downward pressures on oil prices, then yes – central banks will struggle in 2016 to make aggressive moves. Certainly I think the Fed may well struggle to be particularly aggressive in 2016 if we're right about oil prices. Equally I think the Bank of England may find itself having to wait maybe as long as 2017 before making its first move. And I think the pressure on the ECB to keep policies easy as possible for as long as possible will only continue to grow. Therefore for me, 2016 the story is not necessarily about aggressive moves hiring policy but it's rather more about how people are going to be able to do anything to the upside and more about how people actually ease policy. That I think presents an astonishing picture for assets because quite clearly the key risk for 2016 becomes do we end up with investors reaching for yield. That's why I think the oil price story really matters, above and beyond the energy markets.

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