Don't fight the Fed and Draghi

In finance risk is predictable (volatility is the average variance of the prices), but uncertainty is unforeseen. The central banks, since they have chosen the path of extraordinary monetary easing (low rates, even negative ones and the placing of extreme liquidity in the system) they carefully monitor the volatility of prices: financial wealth cannot contract too much, otherwise demand stops and the real economy slows down creating the conditions for dangerous deflationary screwing. Although in the long term their interferences serve indirectly to finance the move towards a new digitalized and sustainable economy, *where work means know-how,* in the short term they lead to inflation of financial assets. The fears of August, which reflected concerns about growth due also to Trump's trade war, were defeated in September from the interventions by the Federal Reserve, the European Central Bank and a good number of other issuers that have cut rates. Jerome Powell has partially disappointed the markets by downing by only a quarter of a point. But the market promptly required his mediation: he was in fact forced to a sort of *Quantitative Easing* to grease the market for short-term interbank loans *(Repo)* which - strangely? - remained without liquidity. Draghi, departing from his mandate, has been more resolute, also because he must face the *Brexit* and the slowdown of the German economy: rate reduction of 0.25%, but also *Quantitative Easing* of 20 billion a month, without indicating a deadline. The deadline, he said between the lines, will be given by the markets and governments since monetary policy will be forced to inflate financial assets until there are fiscal policies capable of moving the real economy. However, any new monetary intervention is less effective than the previous one. Therefore, we expect from the governments which have the necessary instruments and capability to stimulate the economy. In Europe, this duty is mainly for Germany. But the uncertainty of Trump's trade war, which will perhaps

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be weakened by his *process of impeachment*, and the decision-making inability of the jagged European Union will force central banks to continue their path of monetary facilities. The stock exchanges will hold until the risk management is enough to contain the widespread uncertainty and the market will remain convinced that it is better to "*don't fight the Fed*" and sisters.