Views clash on US and Chinese easing

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Commentators have clashed over the likelihood of America and China easing their economic policies ahead of their respective presidential elections in 2012.

Jim Rogers, the chief executive of Rogers Holdings, told CNBC last week that he expected America to launch a new programme equivalent to a third round of quantitative easing (QE3) before November 2012, as the Federal Reserve seems to be reliant on this strategy.

This followed comments made to *Fund Strategy* by Claude Tiramani, the manager of the Lutetia Emerging Opportunities fund, who said China would take on a looser and more popular monetary policy to support its presidency change in the autumn of next year.

But Andrew Milligan, the head of global strategy at Standard Life Investments, and Philip Poole, the global head of macro and investment strategy at HSBC Global Asset Management, dispute the likelihood of strong easing taking place in either country.

Milligan says America's Federal Reserve wants to be seen bringing about a normalisation of monetary policy, meaning that any further easing would require a "U-turn" by the central bank.

He notes that some American policymakers seem to be considering additional action before the end of 2012. But he points out that other voices advocate no further easing and argue that the country's problems stem from short-term factors. These include the high price of oil and industrial disruptions caused by Japan's recent natural disasters.

Poole says there is little more the Fed can do to increase easing because interest rates are close to zero and "the world is flooded with dollars". He suggests there is less than a 50% chance of QE3 being launched.

Both commentators predict that American monetary policy will remain relatively unchanged throughout 2012 unless the economy faces severe shocks such as a large increase in unemployment or the return of recession.

Nor do Milligan and Poole see China as likely to introduce a significant programme of monetary easing. Poole points out that China is still tightening its policy through measures such as interest rate rises, higher reserve ratios and reversing past monetary stimulus.

He also expects interest rate increases over the course of 2012, adding that China will be reluctant to go back to the days of "massive stimulus" or rapid credit expansion unless it faces a shock to its economy.

Milligan adds that the Chinese government expects inflation to peak this year before falling away over the course of 2012, reducing the chance that it will be compelled to ease monetary policy.

According to Milligan, financial markets appear to be pricing in an end to the country's monetary tightening programme but fall short of expecting easing in the coming months.

