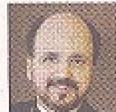


**DOHA DATELINE**
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# Will quantitative easing work?

## Fiscal measures should complement monetary easing for sustainable global recovery

IN THE first week of September 2012 the European Central Bank (ECB) had presented a plan to potentially buy unlimited amounts of short-term sovereign debt from troubled eurozone countries, in a bid to help close their budget deficits and reduce their borrowing rates. Last week the US Federal Reserve announced it would buy $40 billion every month in mortgage backed securities until the labour market improves substantially. It also said it would extend its "operation twist" scheme of selling short-term debt and buying long-term bonds with the proceeds in order to keep long-term interest rates as low as possible. The global markets had been upward trend in this month so far on account of these liquidity easing measures which has described US Fed action as QE3 (quantitative easing) measures.

The US stock market indices namely Dow Jones, S&P and Nasdaq continues to have a good time after QE3 with an YTD growth in the range of 10-22 per cent. The European indices namely DAX, FTSE and CAC have rallied and have a YTD growth in the range of 5-25 per cent.

Nikkei and Sensex had rallied and have a YTD growth in the range of 8-20 per cent. Global markets had rallied in the first quarter of 2012 on account of LTRO measures from ECB by end of 2011.

After the recent rally global markets are holding on in response to the adverse developments in Europe and concerns in US manufacturing data. In the GCC the indices of Saudi Arabia, Abu Dhabi and Dubai had shown a good performance with YTD growth in the range of 8-18 per cent. Oman, Kuwait and Bahrain are showing a moderate performance. Qatar's DSM had shown an upward trend since end of July 2012 and QE3 measures is giving further boost to enable reach close to year beginning levels.

Crude prices which arose after QE3 on account of betting from hedge funds had come down on concerns in Europe. After announcement of QE3 Brent oil had soared to $117.95 a barrel and WTI crude hit $100.42 to a four-month high. Last weekend gold raced as high as $1,778 per ounce, which was the highest level since February 2012. Silver meanwhile jumped to $34.94, last reached in March 2012. The liquidity promises from ECB and Federal Reserve will result in the capital flowing to high-risk assets, including crude oil and commodities. The inflation and food prices would increase as a result of higher global commodities prices as well as higher crude oil prices.

US dollar index which is presently close to 79 had weakened and fell below 79 to a seven month low after the easing measures announced by Federal Reserve last week. The dollar index had gone up marginally on account of dispute between China and Japan over islets in the East China Sea. Euro is close to four-month highs having touched as high as 1.31 against the dollar and presently near 1.30. The euro is supported by optimism that the ECB's new bond-buying programme could help Madrid survive its debt crisis, though some are concerned that Spanish bond yields have risen. The euro also won a boost last week from Ger man court approval for a nev €500 billion firewall and fisca pact, clearing a key hurdle in solv ing the eurozone debt crisis.

The dollar traded at ¥78.69 an there is pressure on the Bank of Ja pan to ease further given the slow ing pace of the economic recover and the possibility of yen apprecia tion. GBP/USD is just below th high of 1.6254 last Friday after th easing measures announced b Federal Reserve. Australian dollar i close to $1.045, below the a si month high of $1.0625 set last Fr day on worries that slower growth in China would put the brakes on Australia's mining boom.

A bad labour market in US will encourage continuing QE3 measures. However, if the labour market improves will these easing measures continue? The markets will continue to be alert to the US job data as easing measure is mainly contingent on this. In emerging market economies, policymakers should be ready to cope with inflation due to rise in price of commodities and volatile capital flows. The easing measures from central banks are a boost for the capital markets in the short term however the fiscal issues and economic growth are the key for global economic recovery. Fiscal measures which do not complement easing measures will only result in bubble creation and hence fiscal measures should complement these easing measures provided by central banks.

**The US stock market indices namely Dow Jones, S&P and Nasdaq continue to have a good time after €3 with an YTD growth in the range of 10-22 per cent. — *AFP***

*The writer is the Group CEO at Doha Bank. Views expressed by the author are his own and do not reflect the newspaper's policy*