

July 14, 2016

BANK OF ENGLAND

Monetary easing postponed to August 4

ACCORDING TO THE BANK OF ENGLAND (BoE)

- The base rate is maintained at 0.50%. Eight members of the Monetary Policy Committee (MPC) voted for the status quo, while one member voted for a cut of 25 basis points.
- The stock of purchased assets financed by the issuance of central bank reserves remains at £375B. This MPC vote was unanimous.
- Most MPC members expect monetary easing in August. Today's statement provided no information on the scope of the easing or instrument that will be used.
- The MPC expects economic growth to be significantly lower and the inflation rate to be higher than had been anticipated in May's *Inflation Report*.

COMMENTS

Most analysts had been expecting the BoE to cut interest rates. Instead, what we got was intervention projected for August. Although the BoE did not clearly indicate that August's easing would involve a rate cut, this path looks like the easiest path in the near term. At 0.50%, the base rate is much higher than its counterparts in other European monetary zones. In 2009, the BoE deemed this level to be a floor, but the situation has clearly evolved as several countries have introduced negative rates.

Some may blame the BoE for not being proactive in postponing a monetary easing announcement. Here, although some confidence indicators are already showing a net deterioration, the true magnitude of the shock to economic growth is not yet known. Waiting a few weeks will enable a better assessment of the situation, and give the BoE a chance to agree on an intervention strategy. It also allows the BoE to hang onto its ammunition. The road to an exit from the European Union promises to be a long one and the BoE could need to intervene several times to reassure the markets and support the economy.

Today's statement also shows that the BoE is aware that it will have to walk a fine line between higher inflation and

Brexit's negative effects are already being felt



Sources: GfK, Markit, Bloomberg and Desjardins, Economic Studies

weaker growth. The pound has plunged since June 23, a situation that should increase inflationary pressure in the coming quarters, in addition to the pressure already anticipated from the increase in prices for oil and several commodities. The BoE, however, seems to believe that the further increase in prices will not jeopardize reaching its inflation target. Here, it will be able to focus on economic growth.

Implications: The door is wide open for action on August 4. At that time, the BoE will release its new economic growth and inflation forecasts, and will be in a better position to assess the economic impact of the referendum. In our view, an interest rate cut is the easiest action to take in the near term. Over the longer run, the BoE might have to reactivate its asset purchasing policy, or provide other measures to support banks and credit.

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Schedule 2016 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>		
JANUARY			JULY				
13	Bank of Korea	s.q.	1.50	5	Reserve Bank of Australia	s.q.	1.75
14	Bank of England	s.q.	0.50	6	Bank of Sweden	s.q.	-0.50
20	Bank of Brazil	s.q.	14.25	13	Bank of Korea	s.q.	1.25
20	Bank of Canada	s.q.	0.50	13	Bank of Canada	s.q.	0.50
21	European Central Bank	s.q.	0.05	14	Bank of England	s.q.	0.50
27	Federal Reserve	s.q.	0.50	20	Bank of Brazil		
28	Reserve Bank of New Zealand	s.q.	2.50	21	European Central Bank		
29	Bank of Japan	s.q.	-0.10	27	Federal Reserve		
				28	Bank of Japan		
FEBRUARY			AUGUST				
1	Reserve Bank of Australia	s.q.	2.00	2	Reserve Bank of Australia		
4	Bank of England	s.q.	0.50	4	Bank of England		
4	Bank of Mexico	s.q.	3.25	10	Bank of Korea		
11	Bank of Sweden	-15 b.p.	-0.50	10	Reserve Bank of New Zealand		
15	Bank of Korea	s.q.	1.50	11	Bank of Mexico		
17	Bank of Mexico	+50 b.p.	3.75	31	Bank of Brazil		
29	Reserve Bank of Australia	s.q.	2.00				
MARCH			SEPTEMBER				
2	Bank of Brazil	s.q.	14.25	6	Reserve Bank of Australia		
9	Bank of Korea	s.q.	1.50	7	Bank of Sweden		
9	Reserve Bank of New Zealand	-25 b.p.	2.25	7	Bank of Canada		
9	Bank of Canada	s.q.	0.50	8	European Central Bank		
10	European Central Bank	-5 b.p.	0.00	8	Bank of Korea		
14	Bank of Japan	s.q.	-0.10	15	Bank of England		
16	Federal Reserve	s.q.	0.50	15	Swiss National Bank		
17	Bank of England	s.q.	0.50	20	Bank of Japan		
17	Bank of Norway	-25 b.p.	0.50	21	Reserve Bank of New Zealand		
17	Swiss National Bank	s.q.	-0.75	21	Federal Reserve		
18	Bank of Mexico	s.q.	3.75	22	Bank of Norway		
				29	Bank of Mexico		
APRIL			OCTOBER				
5	Reserve Bank of Australia	s.q.	2.00	3	Reserve Bank of Australia		
13	Bank of Canada	s.q.	0.50	12	Bank of Korea		
14	Bank of England	s.q.	0.50	13	Bank of England		
18	Bank of Korea	s.q.	1.50	19	Bank of Brazil		
21	European Central Bank	s.q.	0.00	19	Bank of Canada		
21	Bank of Sweden	s.q.	-0.50	20	European Central Bank		
27	Reserve Bank of New Zealand	s.q.	2.25	27	Bank of Norway		
27	Bank of Brazil	s.q.	14.25	27	Bank of Sweden		
27	Bank of Japan	s.q.	-0.10	31	Reserve Bank of Australia		
27	Federal Reserve	s.q.	0.50	31	Bank of Japan		
MAY			NOVEMBER				
3	Reserve Bank of Australia	-25 b.p.	1.75	2	Federal Reserve		
5	Bank of Mexico	s.q.	3.75	3	Bank of England		
12	Bank of England	s.q.	0.50	9	Reserve Bank of New Zealand		
12	Bank of Korea	s.q.	1.50	10	Bank of Korea		
12	Bank of Norway	s.q.	0.50	17	Bank of Mexico		
25	Bank of Canada	s.q.	0.50	30	Bank of Brazil		
JUNE			DECEMBER				
2	European Central Bank	s.q.	0.00	5	Reserve Bank of Australia		
7	Reserve Bank of Australia	s.q.	1.75	7	Bank of Canada		
8	Bank of Korea	-25 b.p.	1.25	8	European Central Bank		
8	Reserve Bank of New Zealand	s.q.	2.25	14	Bank of Korea		
8	Bank of Brazil	s.q.	14.25	14	Federal Reserve		
15	Bank of Japan	s.q.	-0.10	15	Bank of England		
15	Federal Reserve	s.q.	0.50	15	Bank of Norway		
16	Bank of England	s.q.	0.50	15	Bank of Mexico		
16	Swiss National Bank	s.q.	-0.75	15	Swiss National Bank		
23	Bank of Norway	s.q.	0.50	19	Bank of Japan		
30	Bank of Mexico	+50 b.p.	4.25	21	Bank of Sweden		

NOTE: Certain banks may decide to change rates in-between the scheduled meetings. The abbreviations s.q. and b.p. correspond to status quo and basis points respectively.