

## Economics Group

### Special Commentary

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# Is the Bank of England Easy Enough?

## Executive Summary

The Bank of England (BoE) announced a £100B increase in its asset purchase target to £745B, matching the consensus expectation. However, some elements of the accompanying statement were less dovish in tone. One policymaker voted for no increase in asset purchases. In addition, the BoE said asset purchases would be completed around the turn of the year, which, if it stays within the new £745B cap, would imply a sharp slowdown from the current pace of asset purchases. U.K. markets have so far reacted adversely and, considering the still less-than-stellar U.K. economic prospects, we think the risks remain tilted toward a further increase in the asset purchase target, and still expect the pound to remain a laggard among the G10 currencies.

**The BoE announced a £100B increase in its asset purchase target.**

## Markets Stumble Even as Bank of England Eases

The Bank of England (BoE) eased monetary policy further at its meeting today, matching the consensus expectation, although the tone of the accompanying statement was perhaps a bit less dovish than expected. The BoE kept its policy interest rate at 0.10% and announced a £100B increase in its asset purchase target, to £745B. The latter was likely a disappointment to some (including us) who had expected a more aggressive increase in asset purchases.

Figure 1

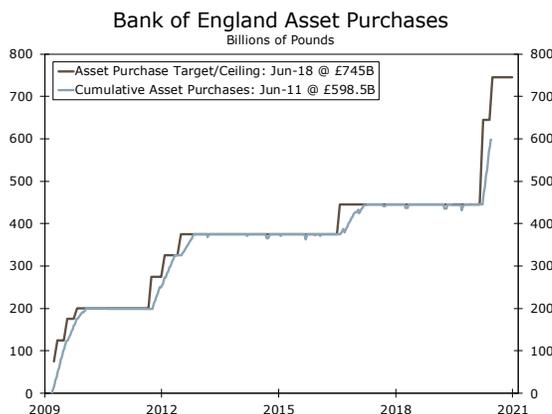
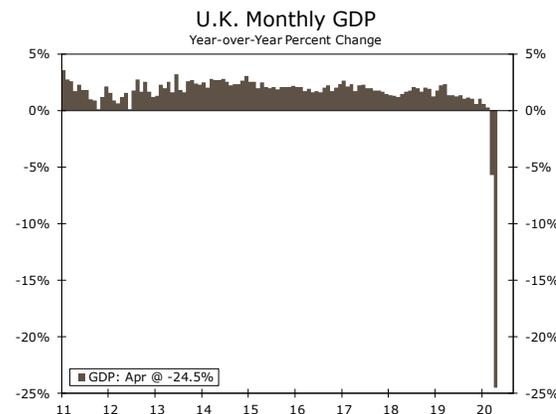


Figure 2



Source: Bloomberg LP, Datastream and Wells Fargo Securities

There were also some other elements of the announcement that were less dovish in tone. The BoE said incoming evidence suggests the fall in global and U.K. GDP in Q2-2020 would be less severe than outlined in its May Inflation Report. More significantly with respect to its asset purchases, one policymaker dissented in favor of no increase in asset purchases at this time. In addition, the BoE said its asset purchase program would be completed around the turn of the year. **If the central bank is to stay within its £745B cap, that would imply a £5B weekly pace of asset purchases over the rest of this year, less than half the approximately £14B weekly pace of asset purchases the BoE has maintained so far.** On the flip side, the main dovish pledge from the central bank was that it was ready to take further action as needed to aid the economy.



***We think the risk remains for a further increase in the asset purchase target.***

After a brief initial spike in the pound, the U.K. currency and other U.K. financial markets have so far reacted poorly to the announcement. The implied slowdown in asset purchases has seen longer-term U.K. government bond yields rise modestly, including a three basis point rise in 10-year yields to 0.22%. The pound is down more than 1% today, and U.K. equity markets are also lower. Separately, although the BoE suggested the economy may shrink less than previously expected, we would argue the U.K. still has a large economic hole to dig out of, with U.K. GDP down a cumulative 25% in March and April.

Considering the adverse market reaction so far and the still less-than-stellar economic prospects, **we think the risk remains for a further increase in the asset purchase target**, perhaps by around £100B in late Q3 or early Q4. Moreover, while we expect some appreciation in sterling against a broadly soft U.S. dollar, today's announcement does not alter our view that the pound will likely remain a laggard among the G10 currencies in the months ahead.

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