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An analysis of the latest economic data

September 13, 2018, 8:30 am

BoE and ECB Announcements

BoE and ECB On Hold .... Looking to 2019

Jennifer Lee, Senior Economist • jennifer.lee@bmo.com • 416-359-4092

The BoE and the ECB announced their monetary policy decisions on the same day, and both were pretty uneventful.

The **BoE's decision** was unanimous, with all nine policymakers voting to keep the Bank Rate at an 8-year high of 0.75% and for the stock of gilt purchases to be maintained at £435 bln. The Press Statement gave some notes of caution, citing the "*greater uncertainty*" around Brexit since August, that companies were becoming more uncertain about the economic outlook, and the increased global risks from trade and emerging markets (although Britain's direct trade and banking exposure to Turkey and Argentina were limited). But there were hawkish tones as well… the phrase that "*ongoing tightening*" would be appropriate was repeated, and the view for Q3 was upgraded (+0.5% expected, before it was +0.4%), for real GDP as well as for PCE and wages. Thus, our spring 2019 rate hike call remains intact, unless, of course, there is a cliff-edge Brexit.

The **ECB** also kept policy unchanged, and left key interest rates unchanged:

• refi rate at 0.00%
• marginal lending facility at 0.25%
• deposit facility at -0.40% respectively

The guidance on rates was kept: rates would "*remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term*".

And, as planned, the ECB intends to cut monthly asset purchases in half to €15 bln starting in October, and wrap things up by the end of the year, with the qualifier that it would be "*subject to incoming data confirming the medium-term inflation outlook*". Thus, our September 2019 rate hike call remains intact.

No changes, no shock. Correction. The staff macroeconomic projections for GDP growth were revised a bit lower for this year and next, reflecting a smaller contribution from foreign demand.

No new revelations came during the press conference. Italy was brought up a few times and each time, President Draghi repeated that the new government had said they would "*respect the rules*". At one point, he responded dryly that the purpose of QE was to ensure they kept to their mandate of price stability in the medium term, and "*not to ensure that government deficits would be financed*". On the topic of emerging markets, he seemed to downplay their impact by stating that so far, the spillovers have not been substantial but the most vulnerable countries are the ones with the weakest fundamentals…high budget deficits, high current account deficits, and high inflation.

The Bottom Line: Steady as she goes …. very slow removal of monetary accommodation, with rate hikes (the ECB's first, the BoE's 3rd since the referendum) a 2019 story.