mni

All Signal, No Noise

MARKET ANALYSIS

BoE Review: September 2020

Statement/Minutes link: https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2020/september-2020

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MNI View: November Decision Hangs on Brexit

Tim Davis, 18 September

Yesterday's MPC meeting saw gilts and short sterling rally as the MPC Minutes noted that the MPC "had been briefed" on plans on how negative rates could be "implemented effectively" and stating that the BoE and PRA "will begin structured engagement on the operational considerations in 2020 Q4."

Ahead of the meeting, there had been little expectations that anything more explicit on negative rates would be say after the August MPR and subsequent speeches from MPC members noted that although negative rates were in the MPC's toolbox, they were not seen as the marginal instrument of choice (QE and forward guidance are preferred). There is of course a leap to be made from further discussions surrounding negative rates to implementation, but the discussion was prominent enough in the Minutes to send a message to the market.

We have argued since August that the Bank of England may announce a relatively small QE extension in November in order to tide itself over until the February meeting where the extent of the deterioration in the labour market will become more obvious. However, the Brexit elephant in the corner is starting to garner the gaze of markets, decision makers in industry and the MPC and the Minutes confirmed that "The Committee would consider economic issues relating to Brexit within the context of its wider forecast discussions ahead of the November MPC meeting."

The MNI Markets team now expects a small QE extension if there is a Brexit deal agreed before the November meeting or else a GBP100bln extension that would allow the pace of QE to be increased substantially if the gilt market required. A move to zero for rates and probably negative rates would also probably be necessary if a no deal Brexit hits and Covid's impact on the economy shows no sign of waning.

Outside of the risk of Brexit and assuming we are not thrown into another nationwide lockdown from Covid-19 (two big assumptions), we continue to believe that the labour market data hold the key to future policy changes (see our full analysis article here for more). Despite a number of MPC comments ahead of the meeting focusing on downside risks, there was not a lot of negative discussion on the future of the economic data in the Statement or Minutes. Indeed, the tone was relatively optimistic as the data is coming in better than forecast in the MPR at present.

Coronavirus Job Retention Scheme Costs and Restrictions

Period	Ability to Work?	Cost to employer
March - June	No	No cost. Claim up to 80% of monthly wages up to cap of £2,500 with no employer NI contributions and pension costs paid by govt.
July	Yes- back to work part time	No cost. Claim up to 80% of monthly wages up to cap of £2,500 with no employer NI contributions and pension costs paid by govt. Can claim for hours not worked.
August	Yes- back to work part time	Claim up to 80% of monthly wages up to cap of £2,500. Employer must pay employer NI contributions and pension costs. Can claim for hours not worked.
September	Yes- back to work part time	Claim up to 70% of monthly wages up to cap of £2,187.50. Employer must pay employer NI contributions and pension costs. Can claim for hours not worked.
October	Yes- back to work part time	Claim up to 60% of monthly wages up to cap of £1,875. Employer must pay employer NI contributions and pension costs. Can claim for hours not worked.
Nov-Jan	No restirctions	All salary, employer NI contributions and pension costs paid by employer. If employee who returns from furlough earns at least £1,560 in the period, employer can claim £1,000 bonus for each that is still on the payroll at end Jan.

Source: UK government and MNI

Summary of Analyst Views

- We have read through 14 analyst reviews of yesterday's BOE meeting and all now expect an extension of QE by the end of the year (previously 3/14 of these analysts were looking for no further QE this year namely Barclays, JP Morgan and Nomura).
- In actual fact, half of the analysts have changed their base case expectations – two of these have been slightly hawkish timing changes. Bank of America has pushed back its rate cut expectations to February (albeit noting it has "more conviction" in rate cuts overall) while Pantheon expects GBP50bln QE in December rather than November, noting that the data may not appear soft enough by November.
- Half the analysts now look for QE to be extended by GBP100bln in November, with most other analysts looking for a GBP50-60bln extension. Morgan Stanley look for a smaller "modest roll-forward" in November ahead of a full package in February.
- The same four analysts see rate cuts in their base case as previously – RBC, Societe Generale, Bank of America and Morgan Stanley.

Summary of Analyst Views (Sorted by Hawkish to Dovish)

Institution	Pre-September meeting	Post-September meeting
JP Morgan	Saunders could vote for more QE "potentially as soon as" Sep. Forecast no more QE, but odds are rising and will revisit forecast after meeting.	**Expect GBP50bln more QE in Dec but with "risks they go earlier and in larger size depending on political decisions". Earliest NIRP could be adopted is 2H21.**
Pantheon	Expect unanimous vote but with risk of dissent in Sep. Then see GBP50bln more QE in Nov and another GBP50bln in Feb.	**Continue to expect GBP50bln QE "before the end of the year", and a further GBP50bln in Q1. But now see Dec "a firmer bet" than Nov.**
Barclays	Expect 7-2 vote against extending QE with Saunders and Haskel most likely to dissent but unanimous 9-0 vote to keep rates on hold.	**Expect GBP50bln more QE in Nov as a "continuation of policies". Downside scenario could see more QE, more forward guidance and negative rates.**
TD Securities	TDS "do not expect the BoE to validate hopes for any further near-term easing". Continue to look for GBP50bln QE in November.	"Continue to expect further QE to be announced at the November meeting". "Don't see negative rates...short of another full-blown national lockdown"
Heteronomics	Expects MPC to "leave door open" to Nov stimulus with QE expansion of GBP55bln to GBP800bln to be announced.	"Still expect another QE announcement" in November.
Deutsche	"Good chance" Saunders "and possibly Haskel" vote for more stimulus in Sep. Expect GBP60bln more QE in Dec but with risks of a Nov announcement.	**Expect GBP60bln more QE in Nov citing "tighter social restrictions and rising Brexit tensions...will give the MPC enough ammunition to pull the trigger"**
UBS	Continue to look for GBP100bln QE in Nov to last until June 2021.	GBP100bln more QE in Nov to last until June 2021. NIRP "unlikely to be used imminently even in the case of a breakdown in the trade talks."
Rabobank	Continue to expect GBP100bln more QE to be announced in November.	Continue to expect GBP100bln more QE to "likely announced" in November.
Nomura	Sees risks of "one or more" members voting for QE in Sep. Continues to look for unchanged policy but notes that Nov sees the biggest risk of easing.	**Expect GBP100bln more QE in Nov with rates on hold. Risks of more QE over the coming months with negative Bank Rate "an increased possibility"**
Goldman Sachs	Continue to expect GBP100bln more QE to be announced in November.	Continue to expect GBP100bln more QE to be announced in November. In a "tail scenario" see more QE "beyond Nov", NIRP, TFS and tiered reserves.
Morgan Stanley	Expect 9-0 vote with risk of Saunders dissent. Expect GBP100bln by Feb but Nov may see a "modest roll forward" of GBP30bln. Rate cut to 0% in Feb.	"Modest roll-forward" of QE in Nov. Shift "perhaps in Feb" to full package of GBP100bln in 2021 with cut to 0%. See NIRP in adverse Brexit scenario.
Bank of America	"Risk of dovish minutes" in Sep; GBP100bln QE and rate cut to 0% in Nov. Note that rate could cut happen in 2021 instead. Cut to -0.50% in no deal-Brexit.	**GBP100bln QE in Nov but rate cut to 0% pushed back to Feb. "More conviction" in rate cuts but less conviction of cut in Nov. Cut to -0.50% in 2021 in no deal Brexit.**
SocGen	Saunders and/or Haskel could vote for more QE in Sep. MPC to wait until "serious declining trend in employment...probably November" before easing,	**Expect Nov easing. See 80% chance of a no deal Brexit and expect "negative rates to be part of the policy stimulus that the Bank is likely to deliver early in 2021".**
RBC	Expect 7-2 vote with Saunders and Haskel voting for more QE. Expect GBP100bln QE in Nov, 25bp cut to -0.15% in early 2021 "most likely" Feb.	Continue to expect GBP100bln QE in Nov, 25bp cut to -0.15% in early 2021 "most likely" Feb. Sees statement as "vindicatation" of RBC's NIRP

Source: Analyst previews and MNI

Note: SocGen added extra easing in early 2021 on the morning of 17 Sep ahead of the BOE meeting and added the explicit reference to negative rates after the meeting.

Analysts' Key Comments (A-Z)

Bank of America – Push back rate cut expectation to Feb vs Nov

- BofA state that "the negative rates talk today may have been intended to create room for QE in November to have more impact while the BoE completes the technical preparations to cut Bank Rate further next year. There would be some sense in this if the BoE bracketed zero Bank Rate in the same category as negative Bank Rate. On balance we now expect Bank Rate cut to zero in February, vs. November previously."
- BofA add that the paragraph on operational considerations "suggests to us that the BoE is more prepared to use negative rates than we thought." And state that "we have more conviction in forthcoming Bank Rate cuts, and especially cuts into negative territory in a no deal Brexit scenarios, but less conviction that a cut to zero will come in November."
- BofA continue to expect a cut to -0.50% in a no deal Brexit scenario.
- Regarding the meaning of "operational considerations", BofA point out two possibilities "whether the BoE is discussing the design of potential tiering; and how the TFS would interact with negative Bank Rate."

Barclays – Now expect GBP50bln QE in Nov

- Barclays state that "the minutes suggest that the BoE remains on alert, if not actively preparing for, the next step." Barclays now expect GBP50bln QE in November (previously forecast no further QE).
- Barclays notes that "letting the QE programme run out in mid-December may lead to market jitters at a time when Brexit and year-end will already likely be sufficiently straining markets and the economy" and also states that this policy should "not see this as a change in stance, but merely a continuation of policies, very much consistent with the difficult macro-economic and political backdrop."
- In an adverse scenario, Barclays think that "excessive Brexit-induced volatility, a disappointing fiscal response and a pick-up in COVID-19 hospitalisation would spur the Bank to deploy more rather than less easing. We would then expect a mix of more QE, more forward guidance and negative rates, with a preference for a lower TFS rate. The timing of such a decision would be at the 5 November, 17 December or 4 February MPCs, albeit announcement and deployment could be decoupled (eg, QE immediately, with lower rates only when conditions are met)."

Deutsche Bank – Expect GBP60bln QE in Nov (not Dec)

- Deutsche Bank continues to look for GBP60bln more QE this year but now expects an announcement in November rather than December. They argue that "tighter social restrictions and rising Brexit tensions over the coming weeks will give the MPC enough ammunition to pull the trigger on additional stimulus earlier than we previously expected."
- On NIRP: "a lower Bank Rate will only be likely after the BoE/PRA conclude their review, and financial institutions implement any necessary systems changes to handle negative rates. At the earliest, we think negative rates would only really be viable at the start of 2021."

Goldman Sachs – Continue to expect GBP100bln QE in Nov

- Goldman Sachs continues to expect another GBP100bln QE in November "given the relative weight the MPC is likely to place on labour market developments as a gauge of medium-term inflationary pressure".
- "In a tail scenario involving blanket Covid containment measures and a disorderly rupture in Brexit negotiations, we expect the BoE to engage in additional asset purchases beyond November, and to cut interest rates gingerly through zero over the course of 2021. Alongside rate cuts, in that scenario, we think the BoE would replenish its Term Funding Scheme (at Bank Rate rather than below Bank Rate) and establish a tiered system of reserve remuneration (to mitigate the side-effects of negative rates)."

Heteronomics – Continues to expect QE in Nov

- Notes that operational decisions are "independent of the MPC" and we shouldn't read too much into this meaning that the MPC will pursue NIRP: "Because the policy rate is set by the MPC, it might be tempting to assume that the MPC is seeking to remove some hurdles to negative rates. But this was an operational decision independent of the MPC. In other words, the causality is not running the dovish way, with the MPC informed of the engagement, not directing it"
- Continues to expect another QE extension in November.

JP Morgan – Looks for GBP50bln QE in Dec

- JP Morgan now "pencils in" a GBP50bn QE extension for December. Previously JP Morgan had forecast no further easing but had stated that it would review this forecast after the September 17 meeting.
- JP Morgan thinks that the MPC will "delay an extension until December to learn more about the policy, political and economic outlook before choosing to act. This would also help the BoE to better calibrate the appropriate size of the package". It adds "We were in a similar situation earlier this year when the case for a QE extension was clear at the BoE's May Monetary Policy Report meeting, but the Bank instead delayed extending QE until the June meeting."
- However, JP Morgan does not rule out a November move: "We'd expect dissent in November... However, if the news on the Brexit fails to improve and a no-deal is starting to look the more likely outcome by mid-Oct, the BoE could announce more QE sooner, and in larger size."
- JP Morgan sees two messages from the NIRP discussion: 1) "the BoE is serious about negative rates." 2)."the fact the BoE is beginning a consultation in 4Q should send a clear message that it is not close to implementing this policy in the next six months at least. We think the earliest the BoE could adopt negative rates is 2H21, with a potential cut to zero sometime next spring acting as a precursor to that."

Morgan Stanley – Continues to see "modest roll over" in Nov ahead of full programme in Feb

- Morgan Stanley continues to think "further easing is likely to follow the budget and Brexit resolution." However, it notes that "As these might only come after the November MPC, we now expect just a modest roll-forward of APF purchases then, given a still fragile outlook, with a later shift, perhaps in February, to the full package. In the end, though, we expect another £100 billion of APF purchases, allowing the programme to run through 2021, and a rate cut to ZIRP."
- "Our forecast assumes a close FTA with the EU, similar to the BoE's projections, while an adverse Brexit outcome would see the MPC taking rates negative, we think."

Nomura – Looks for GBP100bln QE in Nov

- Nomura notes that "the mere fact that the Bank is talking about negative rates so explicitly makes ANY easing in November more likely."
- Previously Nomura had expected further QE as a rise rather than its base case but now expects "the BoE announces £100bn more QE in November but does not go as far as to lower rates further. After all, as the Bank notes in its minutes today, the UK is in a far better position than its peers (particularly the euro area) when it comes to inflation and inflation expectations, so as drastic a response as the ECB has put in place when it comes to negative rates may not be needed."
- Nomura also notes that "with the MPC willing to step up the weekly pace of QE should COVID-19 make a big return the risks seem weighted to the Bank doing more, not less, asset purchases over the coming months. And today's minutes make negative Bank Rate an increased possibility."

Pantheon – Looking for QE in Dec rather than Nov

- Pantheon continues to expect GBP50bln of QE in Q4 and another GBP50bln in Q1. However, it now sees December as more likely than November for the announcement: "It is touch and go, however, whether enough soft data will have emerged by its November meeting for it to authorise more QE then; an extension decision in December now looks like a firmer bet."
- Pantheon notes that "negative policy rates still aren't a near-term prospect…Provided a no-deal Brexit is averted, however, we think that the MPC will stick exclusively to QE."

RBC – Feels "vindicated" in its view that NIRP will be enacted in early 2021

- RBC notes it only recently updated its view on NIRP last week where it said that it expected GBP100bln more QE in November and a rate cut to -0.25% in early 2021 "most likely" in February.
- RBC describes the meeting "as the point at which the MPC stopped being subtle. We would also see it as vindication of our view that negative rates are a genuine policy option for the MPC rather than just part of its forward guidance."
- "If there was any doubt that they might be dissuaded from taking Bank Rate negative because of the difficulties of the banking sector in adapting, then the policy statement made it clear that steps were afoot to remove that potential obstacle. Clearly, the motivation of dropping in that extra detail on this month's meeting was to strengthen the credibility of negative rates as a policy option."

Rabobank – Continues to look for GBP100bln more QE "likely" in November

- Rabobank argues that "while the BoE are preparing themselves for the possibility of going negative, today's meeting report did not contain strong hints that a negative interest rate is on the cards already."
- On NIRP, Rabobank continues "to stick to our view that the BoE will not implement negative rates given our expectations that a Brexit agreement will be sealed at the end of this year. Having said that, we do recognize that the chances of a hard-Brexit have increased further"
- Continue to expect GBP100bln QE with an announcement "likely" in November.

Societe Generale – Now expects NIRP in early 2021

- SocGen states that it now expects "a move to negative rates to be part of the policy stimulus that the Bank is likely to deliver early in 2021."
- On the NIRP discussion in the Minutes, SocGen notes that "this passage has the tone of a decision having already been taken to use it, the next stage being to prepare the operational details of its implementation. The final sentence tells us that they will make the preparations in 4Q, with the implication that they will be ready to use it from 1Q 21 onwards."

TD Securities – Continue to see Nov QE but no NIRP in base case

- Continue to see more QE in November but notes will be following Governor Bailey's two speeches next week and note that "markets will be watching especially closely now for any potential shift in his view on negative rates".
- On NIRP TD argue that "the reaction was overdone as the BoE is merely continuing with its widely-publicised plans to review its toolkit. We don't see negative rates in our base case outlook, and particularly not as soon as November, short of another full-blown national lockdown"
- TD also notes that "The statement was in fact more upbeat than we had expected, reflecting a slightly stronger rebound into Q3, and no mention of the risks to growth into 2021, which is where some MPC members had expressed a lot more concern."

UBS – Continue to see GBP100bln QE in Nov with NIRP unlikely to be used imminently

- Continue to expect another GBP100bln QE in November which will last until June 2021.
- "We continue to view QE as the preferred MPC policy tool with negative rates unlikely to be used imminently even in the case of a breakdown in the trade talks."

MNI POLICY TEAM INSIGHTS

MNI REVIEW: BOE Leaves Policy On Hold; Negative Rates In Box

Major Decisions Kicked Back To November Forecast Round; Negative Rate Planning Steeped Up

By David Robinson, 17 September

The Bank of England Monetary Policy Committee voted unanimously to leave monetary policy on hold at its September meeting, taking a wait-and-see approach on incoming economic data, the apparent resurgence of Covid-19 across parts of the UK and the ongoing Brexit talks with the European Union.

The Bank kept interest rates on hold at 0.1% and its cumulative stock of QE at GBP745 billion, delaying any decision on extending its current asset purchase programme until later in the year. However, policymakers are engaging further with regulators to explore just how ready UK financial institutions are for negative rates if such an easing is needed at a future date.

Without elaborating, the MPC minutes noted discussions and briefings on negative rates had continued at the BOE since the August meeting and the Bank, adding that the Bank and the Prudential Regulation Authority will begin structured engagement on the operational considerations of negative rates in Q4.

ASSET PURCHASES

The planned pace of asset purchases was also maintained, with the current round expected to be completed "around the turn of the year".

Although the decision was widely expected, there had been speculation that some MPC members could dissent and vote for an early expansion of the asset purchase scheme, but the minutes published alongside the decision highlighted the uncertainty around economic developments and put the spotlight firmly on the November meeting.

The uncertainly was underlined with the MPC minutes acknowledging the continued downside risks to economic growth.

The MPC chose not to expand its thinking around both Brexit and the likely path of the pandemic at this meeting, pushing more detailed thinking back into the November forecast round. It side-stepped the Brexit issue, where its working assumption is that a trade deal will be struck between the EU and the UK, although this has been called into question by the latest acrimonious public exchanges.

The MPC will "consider economic issues relating to Brexit within the context of its wider forecast discussions ahead of the November MPC meeting," the minutes said.

INFLATION

The fall in headline inflation on the target CPI measure to just 0.2% year-on-year was downplayed, with the MPC citing some of upward pressure on prices and stating inflation was likely to run higher than expected in August, although still well below the BOE's 2% target

However, Governor Andrew Bailey did have to write an explanatory letter to Chancellor Rishi Sunak, explaining the whys and hows of the inflation miss.

Continuing softness in wage growth and the risk of accelerating unemployment were expected to push down on prices. The MPC warned against placing much weight on the latest labour market data, with firms still waiting to see how the Covid pandemic plays out.

"Reports from the Bank's Agents indicated that some companies were waiting to see how demand unfolded before deciding whether, and on what scale, to enact any redundancy plans later in the year," the minutes said.

The MPC also noted that the government's furlough scheme was muddying the employment outlook, although stronger than expected activity data suggested that the unemployment hit may be less heavy than previously assumed. But against that, fast changing consumer behaviour could deliver a greater shock than anticipated.

Given that recent shifts in the pattern of consumption spending had occurred much more quickly than in previous periods of structural change, employment in the worst-affected sectors could fall to a greater extent than envisaged, the MPC said.___________________________________