

Market Bulletin

18 June 2020

Bank of England boosts its bond-buying plans

Today the Bank of England (BoE) announced an increase to its planned asset purchases of GBP 100bn, taking the purchase target to GBP 300bn in total. The Bank expects that these purchases should be completed by the start of next year, implying a slower pace of monthly purchases ahead compared to that witnessed in recent months. No other changes to policy were made, with UK interest rates kept on hold at 0.1%. Gilt yields have risen in reaction to today's news, with the yield curve steepening.

While the initial market reaction suggests that investors were a little underwhelmed, today's decision sends a clear signal: the BoE stands ready to absorb the upcoming gilt issuance, and in doing so will keep government borrowing costs low. Asset purchases announced in March were calibrated to what the BoE knew about the government's borrowing requirements at the time. Yet subsequent decisions such as the extension of the furlough scheme come with subsequent increases in costs. The UK's Debt Management office has so far only released plans for gilt issuance up to the end of July, but with some estimates now suggesting that issuance will approach £400bn in this fiscal year, it's quite feasible that the BoE will decide to increase purchases again in the autumn. Today's announcement should ensure that gilt auctions over the summer are well digested by the market, and allows the Bank to make a more informed decision about asset purchases further down the road once more details of the state of the economy and in turn the government's budget plans and associated borrowing needs have emerged.

In the minutes from the meeting, the Monetary Policy Committee (MPC) noted the improvement in activity data since its last meeting in May, but struck a more concerned tone about the health of the labour market in particular. The decline in UK inflation has triggered the requirement for the BoE Governor to write to the UK Chancellor, with the effects of the pandemic cited as the main cause. The outlook for the UK economy was described as "unusually uncertain", and the MPC recognised that the recovery in domestic consumption may be slower than in other countries around the world that had witnessed a lower number of Covid-19 cases.

Looking ahead, we expect the Bank of England to focus on asset purchases as their primary tool to support the economy over the coming months. The last few years have demonstrated that extraordinary central bank policies can never be ruled out, but negative rates still appear some way down the list of options that the BoE would consider if further policy easing is required.



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