

Friday, 08 January 2010

Flash Notes

United Kingdom: No Policy Changes from the BoE

The Bank of England – in its first meeting of 2010 – has left its key lending rate unchanged at 0.5%. In addition to this, the 200 billion pounds quantitative easing programme of asset purchases continues, and is forecast to end next month. However, the scale of the scheme, which has already been increased thrice, remains under review. The minutes of its latest two-day meeting, which should provide further insights into the MPC's latest thoughts, will be published on January 20.

The decision, which was widely anticipated, saw little reaction in the GBP, which stayed lower against the USD. Unlike the Eurozone, Japan and the US (which have shown signs of positive growth), the UK is still stuck in a recession. Latest growth numbers showed that real GDP fell by 0.2% in the third quarter, from a contraction of 0.3% in the second quarter. Besides, the short and medium-term outlook remains uncertain amid lingering doubts about credit rating as well as on the ongoing political debate. Prime Minister Gordon Brown is trying to revive the economy and rebuild support in time for an election which he must call by June.

Yet, growth is expected to return in the fourth quarter. Board member Kate Barker said she would be "very surprised" if GDP did not rise in the fourth quarter as the central bank sees the economy emerging from the recession. The Bank, however, made no statement about the economy after the policy meeting yesterday. New inflation and growth forecasts will be announced when the BoE releases its quarter inflation report on February 10. Even if we witness a return to growth, the BoE will face a very tough call nonetheless – on whether to vote for a further extension of QE in February or whether it will announce a halt or a pause – given that the UK economy is being complicated by so much uncertainty. That should see more volatility in the GBP going forward, with our 3-month GBP/USD forecast at 1.650, 6-month forecast at 1.660, and 12-month forecast at 1.680.

	End 1Q10	End 2Q10	End 3Q10
Repo Rate	0.50	0.50	0.50
GBP/USD	1.650	1.660	1.700
Source: UOB			

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