Market Overview

Update

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- **Bank of England preview**
- **Covid / Market update**

Contact us:
T: +353 (0) 1 421 0091
E: treasury@investec.ie

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Bank of England preview:

The speed and intensity of coronavirus related events in recent months have meant that a number of key policy decisions globally have been taken at emergency meetings. The UK has been no exception, cutting its bank rate to 0.10% and announcing additional asset purchases of £200bn in an unscheduled meeting on 19 March. Since then, the BoE has remained on hold, but in their May meeting, two members dissented from the decision to maintain current policy, voting for an additional £100bn of asset purchases. Since then, the prospect of negative rates has also received a lot of attention, both from analysts and BoE members themselves. Our view, along with that of the markets is that the BoE will boost the size of their asset purchase programme by £100bn, but maintain the bank rate at its current level. The pound would normally react negatively to a dovish announcement of more QE from the Bank of England, which could see EURGBP threaten the 90p level yet again. However in recent months, most currencies have tended to react positively to supportive policy announcement from their domestic central bank, so a supportive message from the BoE could see the pound strengthen. Either way, we could finally see a breakout from the narrow range the pound has traded in the past 6 weeks.

The minutes to the Bank of England meeting, which are published alongside the decision will also be important. Firstly, they will give a good insight into whether the committee's prospects for the economy have improved or not since the May meeting. While the reopening had brought some improved sentiment, the worse than expected 20.4% crash in GDP in April could raise concerns of a deeper decline than previously expected. Secondly, any further review into the efficacy of negative rate policy will be important not just from the prospective of further rate cuts in the UK, but also on the acceptability of the measure for other major central banks globally.

Covid / Market update:

Markets have continued to remain nervous over signs of a resurgence of the coronavirus in countries that were thought to have largely removed the virus in their countries or alternatively have seen cases rising following an easing of lockdown rules. The most notable one of these is China, where an outbreak in Beijing has led to localised restrictions being put in place and flight cancellations, in the last 24 hours another 21 cases have been identified taking the current outbreak total up to 158. In the US, 10 states have now reported their highest daily infection rates (7 day average) since the coronavirus crisis begun, raising questions over the early removal of lockdown rules among states. Meanwhile the global backdrop continues to be worrisome with daily infection rates near record highs, with worrying trends being seen in emerging markets, Brazil reported almost 31k cases in a single day earlier this week, whilst the WHO has warned over the spread of coronavirus in Africa. Amidst this backdrop the response from central banks is being closely watched, reports following a Chinese State Council meeting yesterday are suggesting that the Peoples' Bank of China (PBoC) is about to embark on another cut in the Reserve Requirement Ratio (RRR), the Brazilian Central Bank also cut interest rates 75bps overnight taking the Selic rate down to 2.25%.

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