



20/06/2018 - Boe Weighs Rate Rise GBP

The Bank of England will be looking to see if Britain's economy has recovered from a severe winter chill as it weighs the prospects for a future interest rate rise this week. Slow growth as the economy prepares to leave the European Union in March next year places BoE policy in sharp contrast to the United States, where the Federal Reserve plans to raise rates four times in 2018, and three times in 2019.

BoE Governor Mark Carney has said first-quarter weakness looks temporary and expects rates to rise gradually over the next couple of years, to prevent overheating at a time of above-target inflation and the lowest unemployment since 1975, however he has been much vaguer about precise timing. A putative May rate rise was thrown off course by an unusually harsh winter - and a possible underlying slowdown - that led to the economy almost stagnating from January to March.

Many economists expect the central bank to keep hedging its bets. Since its last meeting, inflation has fallen to a one-year low of 2.4 percent and April industrial output and construction data were strikingly weak.

Wage growth has been solid if unspectacular, and May retail sales were strong, reflecting sunny weather, a royal wedding and a partial easing of the inflation pressure that has squeezed British consumer demand since June 2016's Brexit vote.

Two BoE policymakers - Ian McCafferty, whose term ends in August, and Michael Saunders - are expected to stick with their view, held since March, that rates need to go up now. The rest of the MPC are likely to conclude that there is little cost in waiting until at least August before deciding whether to raise rates, economists say.

EUR

German Chancellor Angela Merkel and French President Emmanuel Macron agreed on Tuesday to create a euro zone budget charged with boosting investment in the bloc and promoting economic convergence between its 19 states.

The leaders met to prepare for a summit of European Union leaders on June 28-29, with Macron keen to push through wide-ranging reforms to strengthen the euro zone and insulate the single currency union from future crises, while Merkel has been more cautious.

While Europe's economy has picked up and there is no immediate sign of financial stress, many analysts

maintain that reforms are needed to protect the single currency. Merkel, under pressure at home where her conservatives are divided on how to curb migrant arrivals, said she was optimistic her government and parliament would back the euro zone reforms. Macron said the new joint euro zone budget agreed would be operational by 2021.

Details of the budget, including its amount and whether it would be financed by national sources or a bloc-wide tax, would be hammered out by ministers before the end of the year, he said.

KEY ANNOUNCEMENTS

14.30 – EUR – ECB President Draghi Speaks

14.30 – USD – Fed Chair Powell Speaks

15.30 – USD – Crude Oil Inventories

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