Central bank near-term bias

We expect the BoC will continue to hold the overnight rate at its “effective lower bound” of 0.25%. Its open-ended asset purchases will provide ongoing support during the recovery.

The Fed has started to slow the pace of asset purchases after aggressive action early in the crisis but QE remains open-ended. Its balance sheet will also continue to grow alongside uptake of new programs. And a near-zero fed funds rate will provide ongoing stimulus.

The BoE is likely to increase its asset purchase target in mid-June. The negative policy rate debate is also likely to intensify, and we think the bank rate will be lowered to -0.15% later this year.

The ECB nearly doubled the size of its pandemic asset purchase program in June, and an upcoming term financing operation (at very attractive rates) will provide additional stimulus to the banking sector.

The RBA sounds pretty comfortable with its current monetary policy stance: a low 0.25% cash rate and QE targeting 3-year government bond yields at that same level.

Central Bank Policy Rates

<table>
<thead>
<tr>
<th>Country</th>
<th>Policy Rate</th>
<th>Current</th>
<th>Last</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>Fed funds</td>
<td>0.00-0.25</td>
<td>1.00-1.25</td>
<td>March 15, 2020</td>
</tr>
<tr>
<td>Canada</td>
<td>Overnight rate</td>
<td>0.25</td>
<td>0.75</td>
<td>March 27, 2020</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Bank rate</td>
<td>0.10</td>
<td>0.25</td>
<td>March 19, 2020</td>
</tr>
<tr>
<td>Eurozone</td>
<td>Deposit rate</td>
<td>-0.50</td>
<td>-0.40</td>
<td>September 18, 2019</td>
</tr>
<tr>
<td>Australia</td>
<td>Cash rate</td>
<td>0.25</td>
<td>0.50</td>
<td>March 19, 2020</td>
</tr>
</tbody>
</table>

Josh Nye
Senior Economist
(416) 974-3979
josh.nye@rbc.com
CENTRAL BANK WATCH | JUNE 2020

Bank of Canada

The BoC expects a further 10-20% decline in Q2 GDP (our forecast is –9% non-annualized) but said the outlook for the second half of 2020 and beyond remains “heavily clouded”. The BoC’s asset purchase program remains open-ended. We think it will last at least a year, but are waiting on more detailed forward guidance when the bank has some clarity on the economic outlook.

Federal Reserve

The Fed hasn’t updated its economic projections since 2019, but Chair Powell has said it will take some time for the recovery to gather momentum, and additional policy support might be needed to prevent lasting economic damage.

Powell also said the Fed will rely on its existing tools if further stimulus is required, and that negative rates are not being considered by the FOMC.

European Central Bank

Disinflationary pressure from a sharp economic contraction in H1/20 will only make the ECB’s long running battle to achieve its inflation target more difficult.

The ECB is on track for record asset purchases this year and aggressive bond-buying is scheduled to continue at least through mid-2021. A negative deposit rate isn’t going away anytime soon.

Bank of England

The UK economy has contracted sharply and more than 10 million people are relying on pandemic income support programs. A slow recovery in the labour market will demand more BoE stimulus.

We think the BoE will increase the size of its asset purchase program again in June. We also see the bank following the ECB’s example in moving its policy rate below zero later this year.

Reserve Bank of Australia

The RBA sounded more positive in its early-June policy statement, saying the current downturn might be less severe than previously expected and noting signs the economy began to stabilize in May.

Yield curve control has worked well for the RBA—it has had to expand its balance sheet by less than other central banks—and negative rates don’t seem to be part of the policy conversation.

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