Central bank near-term bias

New BoC Governor Macklem is sounding less optimistic than his predecessor, noting the recovery will be “prolonged and bumpy”. Low rates are locked in, and QE will continue well into the recovery.

The Fed’s dot plot suggests rates will remain close to zero at least through 2022. Asset purchases have slowed from crisis levels but continue at a relatively brisk pace, and are likely to remain in place for an extended period.

The BoE expanded its QE program by less than we expected in June, but we still see scope for a further increase later this year. We also think the BoE will cut its policy rate below zero by year end.

ECB President Lagarde signaled the central bank will pause to see how the pandemic and recovery progresses before making further monetary policy changes. Asset purchases and negative rates continue.

The RBA sounded more uncertain in July as worries about coronavirus resurgence offset generally firmer economic data. The central bank once again noted that accommodation can be scaled up if necessary.

Central Bank Policy Rates

<table>
<thead>
<tr>
<th>Country</th>
<th>Rate Type</th>
<th>Current</th>
<th>Last</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>Fed funds</td>
<td>0-0.25</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>
The BoC will finally provide a full forecast update in July, and based on comments from Governor Macklem, it’s likely to show a prolonged recovery and inflation persistently below 2%.

The BoC’s forward guidance on asset purchases remains vague, though updated forecasts might give some indication of when the bank thinks the recovery will be “well underway”.

The Fed’s economic projections are a bit more pessimistic than our own. There’s no shortage of uncertainty as many states are dealing with COVID-19 outbreaks that could jeopardize the H2/20 recovery.

FOMC members see persistently low inflation calling for near zero rates through at least 2022. Asset purchases will help keep a cap on longer-term rates, while other programs are providing ample liquidity.

A downward revision to expected inflation pushed the ECB into action in June, but early signs of recovery leave the central bank in no rush to provide further stimulus at this stage.

ECB actions have helped reduce peripheral sovereign spreads, and a rescue fund deal that facilitates transfers to economically weaker countries would also help in that regard.

The BoE sounded slightly optimistic in June, noting Q2 GDP likely contracted by less than expected. However, medium term risks remain, particularly as fiscal support begins to fade.

The BoE is slowing the pace of its asset purchases but we still see scope for another increase in QE. Markets continue to price in negative rates, and we think the BoE will follow through in November.

Australian employment fell further in May, but other economic indicators have started to firm. Improving data will run up against fresh lockdown measures in the country’s second largest city.

With coronavirus cases once again on the rise, the RBA sounded more cautious in July. It remained on the sidelines, though, keeping 3-year yields anchored around 0.25%.