



Policy and Market Developments in the UK

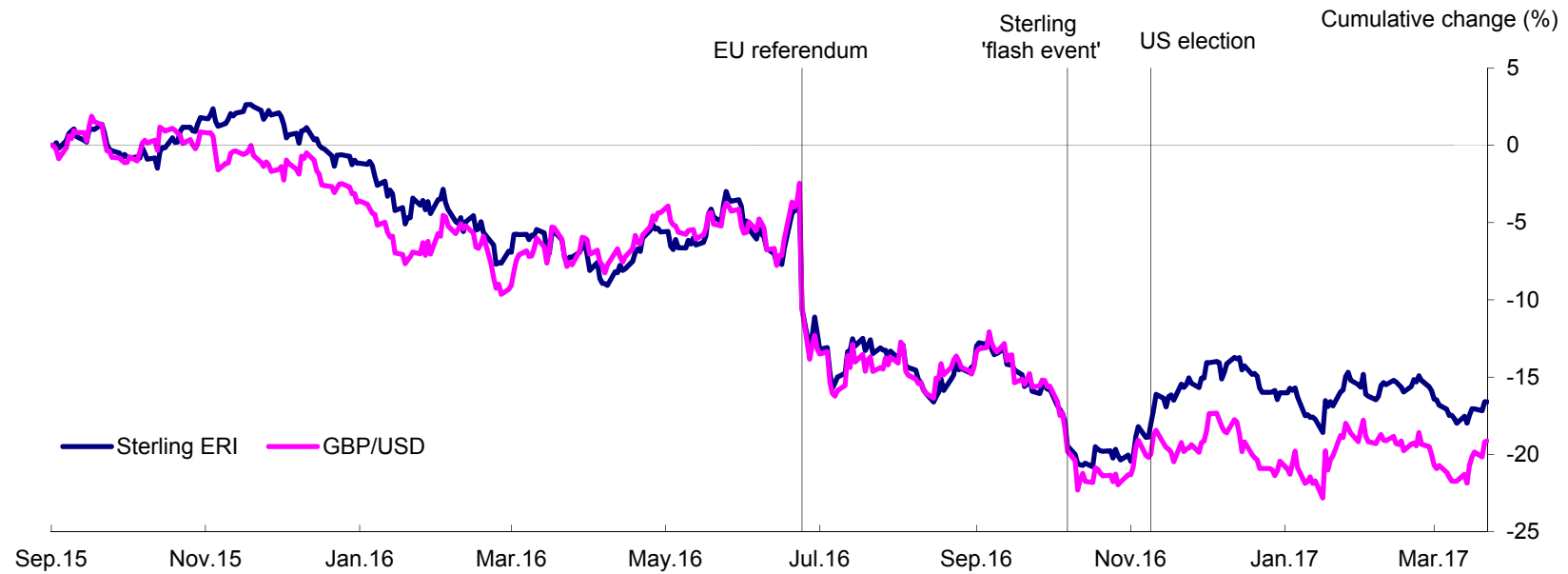
Rebecca Jackson - Bank of England

31 March 2017

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Sterling Exchange Rate

Sterling Exchange Rate Index (ERI) and the GBP/USD exchange rate



Sources: Bloomberg and Bank calculations



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August 2016 Bank of England Policy Package

Policy Measure	Explanation at the time
25bp cut in Bank Rate to 0.25%	<ul style="list-style-type: none">The fall in sterling following the referendum was expected to push up on inflation but the outlook for growth was viewed as having weakened markedly.
Launch of new Term Funding Scheme	<ul style="list-style-type: none">To reinforce the transmission of the cut in Bank Rate.The value of lending in the TFS will be determined by usage of the scheme, and could reach around £100 billion.
£60bn expansion of gilt QE to £435bn	<ul style="list-style-type: none">To lower the cost of borrowing for households and companies, and by triggering portfolio rebalancing into other assets by sellers of gilts.
Up to £10bn of purchases of corporate bonds over 18 months	<ul style="list-style-type: none">The Bank will buy conventional sterling investment grade bonds issued by companies that make a material contribution to economic activity in the UK.To lower the yields on corporate bonds, thereby reducing the cost of borrowing for companies directly; by triggering portfolio rebalancing; and by stimulating new issuance of corporate bonds.The size of the market eligible for the CBPS is around £150 billion.Purchases representative of each sector's share within the list of eligible bonds.

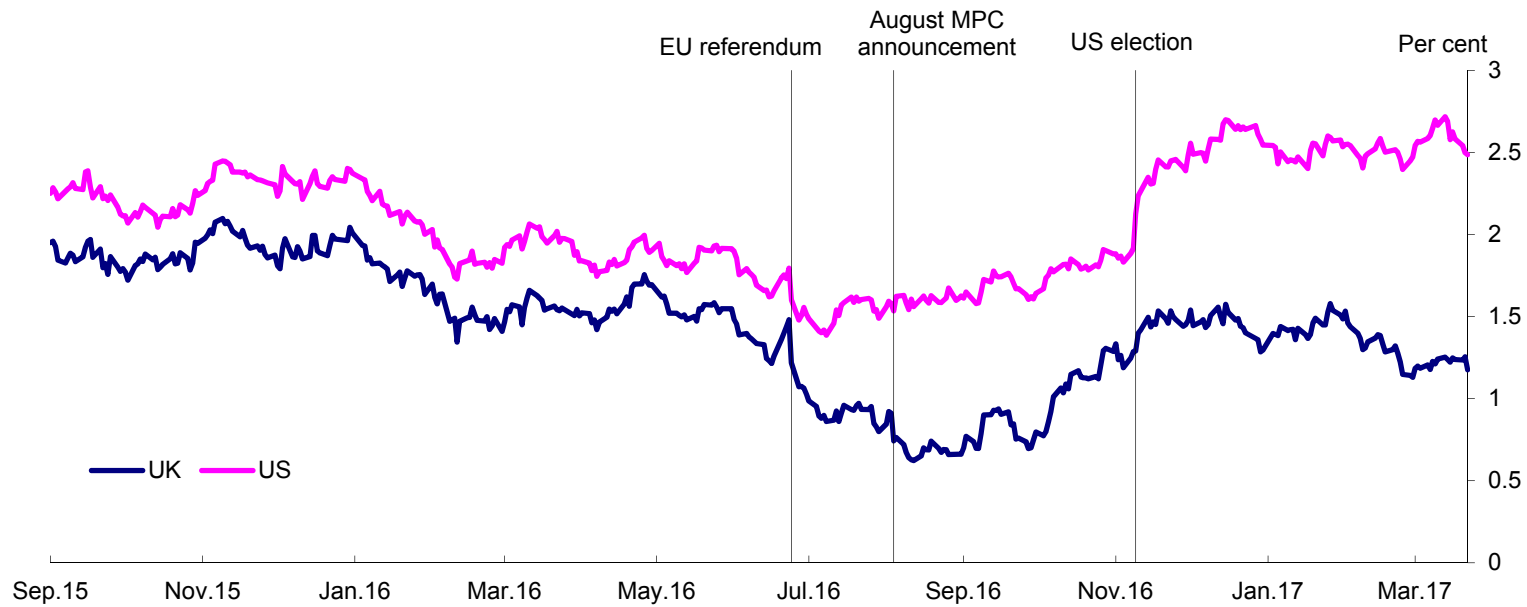


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Long Term Interest Rates

10-year government bond yields



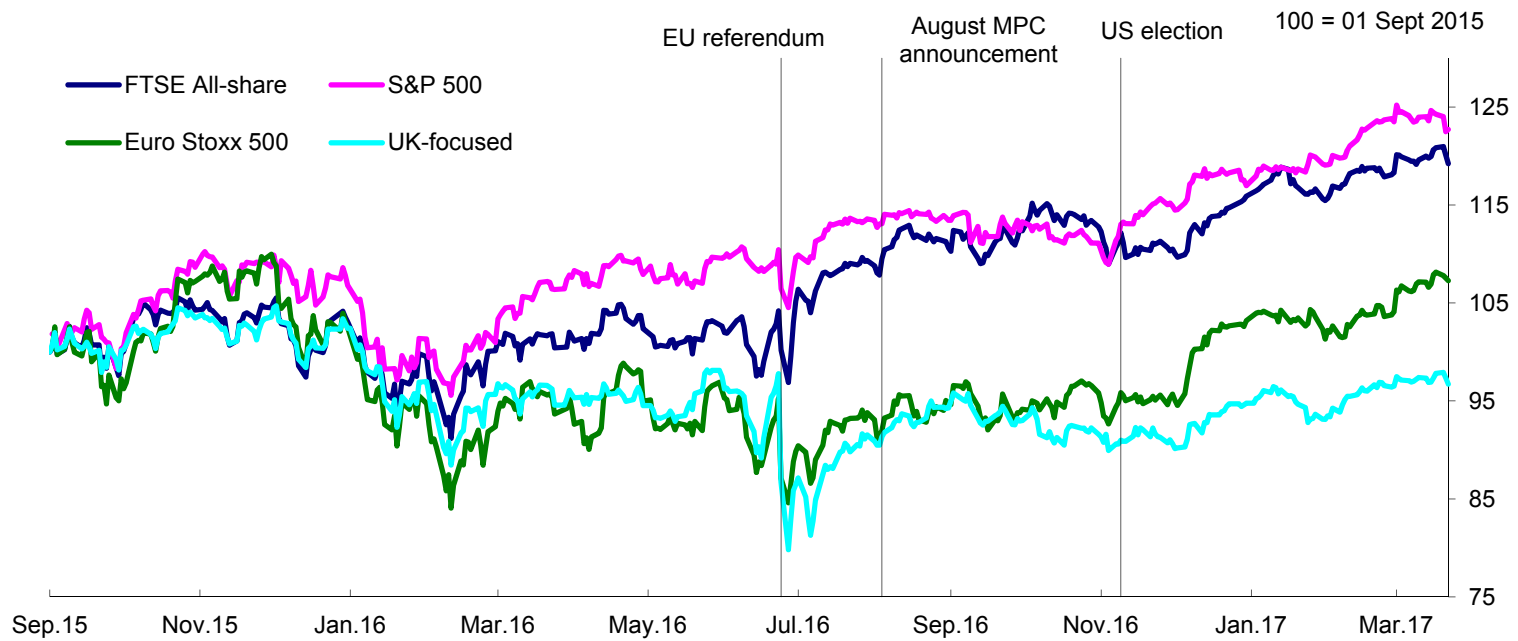
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Sources: Bloomberg and Bank calculations

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Equities

Changes in global equity indices (indexed to 100 as of September 2015)



Sources: Bloomberg and Bank calculations

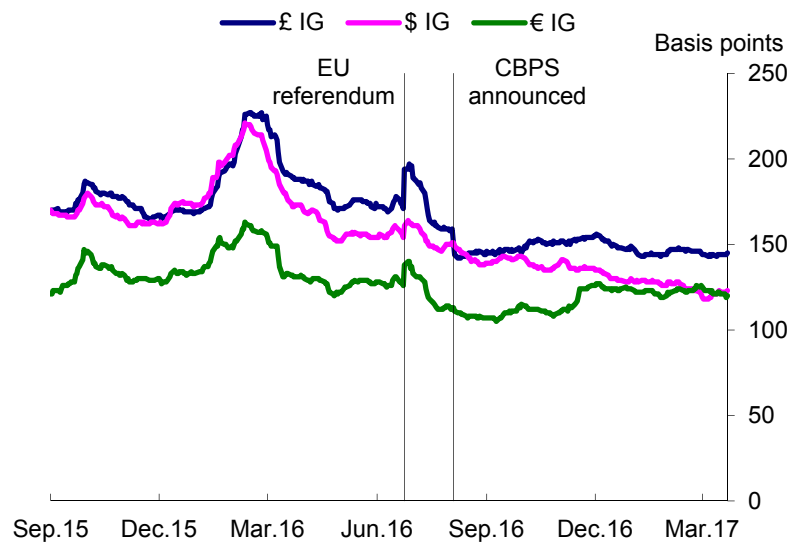


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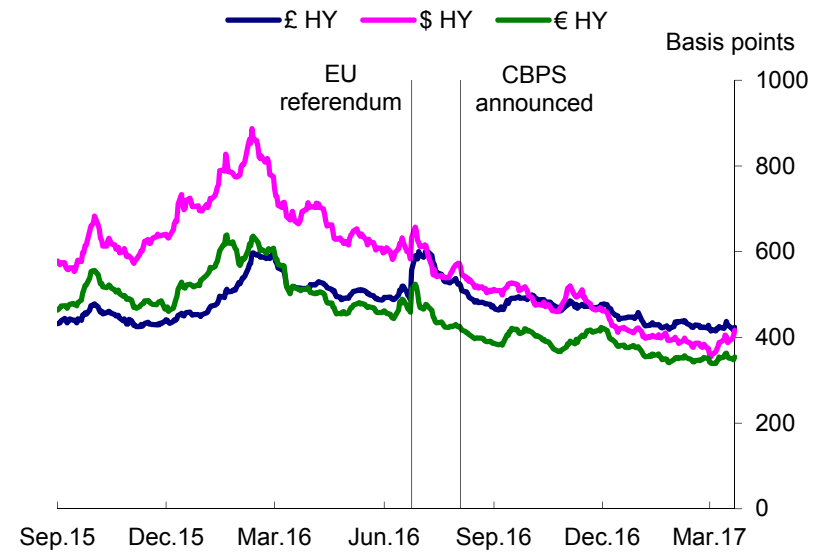
Corporate Bonds

IG corporate bond spreads



Sources: BAML, Bloomberg and Bank calculations

HY corporate bond spreads



Sources: BAML, Bloomberg and Bank calculations

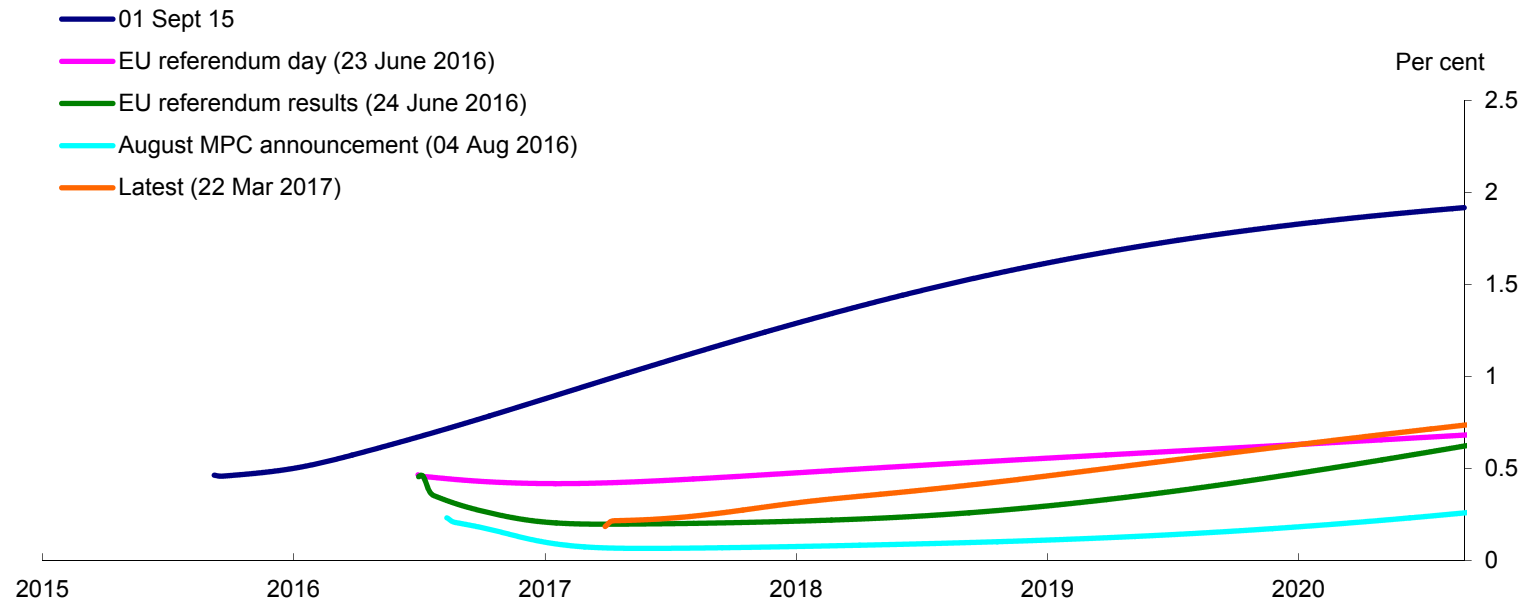


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UK Short Term Interest Rates

Instantaneous forward sterling OIS curve



Sources: Bloomberg and Bank calculations



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Bank of England GDP and CPI Forecasts

August 2016 *IR*

Chart 5.1 GDP projection based on market interest rate expectations, other policy actions as announced

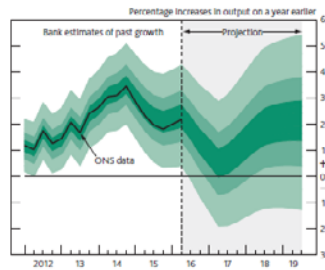
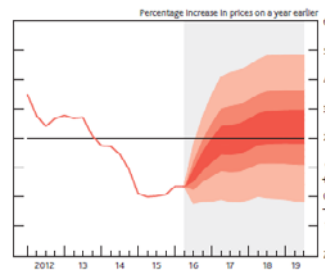


Chart 5.2 CPI inflation projection based on market interest rate expectations, other policy actions as announced



Source: August 2016 *Inflation Report*



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February 2017 *IR*

Chart 5.1 GDP projection based on market interest rate expectations, other policy measures as announced

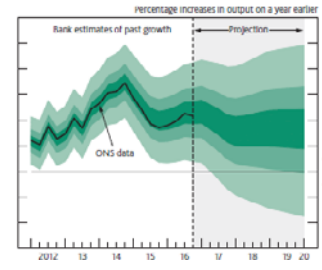
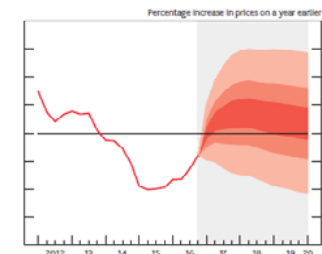


Chart 5.2 CPI inflation projection based on market interest rate expectations, other policy measures as announced



Source: February 2017 *Inflation Report*