Bank of England boosts QE but slows speed of purchases amid market stabilisation

The Bank of England has expanded its QE programme, but more importantly, the calmer rate market conditions have given policymakers enough confidence to slow the pace of purchases. Still, the myriad of risks facing the economy suggests that the Bank could come under further pressure to do more - and that will undoubtedly fuel discussion of negative rates

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The economic outlook facing the Bank of England remains very uncertain

Three months on from the launch of the Bank of England's emergency stimulus, the situation in financial markets looks markedly different. The combination of the £200 billion quantitative easing package and the Bank's commercial paper scheme have helped return money markets to something closer to normality.

However, in many ways the economic outlook looks just as uncertain. Localised outbreaks of Covid-19 in China and the US serve as a reminder that the risks from the virus have far from gone away. And while government schemes have helped avoid the kind of unemployment spike seen in the US, there are growing concerns about the longer-lasting impact, as firms adjust to social distancing constraints.

Quantitative easing expanded but buying pace set to slow

It's therefore not surprising that the Bank of England has opted to expand its quantitative easing programme, although this also heavily reflects operational considerations. At the current pace of purchases, the original £200bn expansion would have only sustained purchases for about another month.

For similar reasons, we had expected the Bank to top-up the programme by more than the £100bn it has announced today. Importantly though, that assumed that the pace of purchases remained the same, at around £10-11bn per week.

At that pace, the £100bn expansion would only sustain purchases until early September. However in light of the recent stabilisation in markets, the BoE has decided to slow the speed of bond buying. Policymakers have signalled that the new £100bn injection will be completed by the 'turn of the year', and this implies that the rate of purchases will roughly halve.

Negative rates are still probably fairly low on the list of favoured tools

Of course, this could change. While the economy is likely to show some green shoots over coming weeks as a broader proportion of the economy reopens, it's unlikely that activity will return to pre-virus levels for at least a couple of years.

The need to continue supporting the economy will undoubtedly fuel further discussion about whether negative rates are on the horizon. There wasn't any mention of this topic today, although there is still a press conference to come. Policymakers have generally appeared more open to the idea over recent weeks, although we suspect negative rates are still fairly low on the list of favoured tools. The potential costs are well documented when it comes to bank lending, and the experience in Europe and Japan has so far been mixed.

We certainly wouldn't rule out negative rates further down the line, particularly if the economic recovery does prove to be more turbulent. However, one alternative option might be to adjust the Term Funding Scheme (TFS) to offer banks cheaper funding, on the basis that they increase lending to SMEs.

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