

# Central banks

ECB poised to hike rates in July while US and UK rates look set to stay on hold until next year

- **The US Fed, Bank of England and ECB all left policy unchanged at latest meetings.**
- **Only ECB poised to hike by year end while Fed and Bank of England rate rises not priced-in until early-2012.**
- **PMI data help explain policy divergence.**

The US Federal Reserve, the Bank of England and the European Central Bank all left policy unchanged at their April/May meetings, as anticipated by most analysts. However, while the ECB looks set to hike rates again in the summer, no change is likely until later this year, or even early next year, in the US or UK.

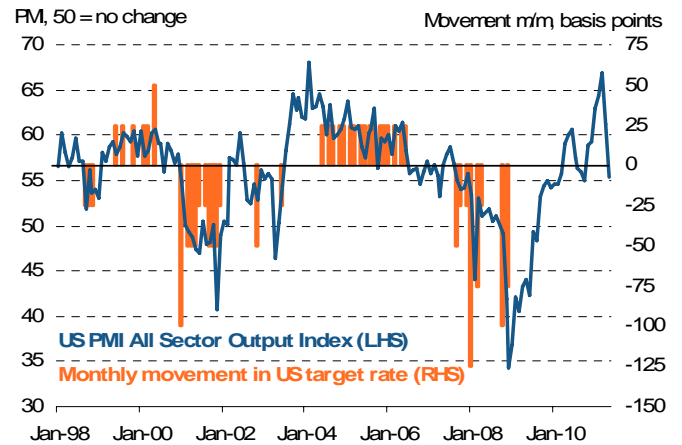
The US Fed, accompanying its Federal Open Market Committee's announcement with the first ever press conference, not only elected to leave policy unchanged (its policy rate is between zero and 0.25%), but Chairman Ben Bernanke stressed how they were in no hurry to tighten policy.

The Bank of England's Monetary Policy Committee also decided to keep its policy rate unchanged at 0.5% in today's meeting, and also made no change to its quantitative easing. No statement accompanied the decision, but recent data have shown a fall in inflation (though still double the target, at 4.0%) and lacklustre economic growth.

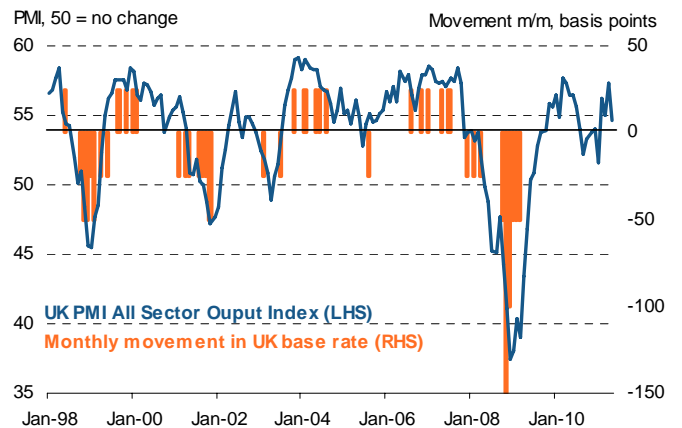
The ECB meanwhile held rates steady at 1.25%, choosing not to follow up on April's 25bp hike with a further tightening. A June hike was ruled out by President Trichet not using the coded language of 'strong vigilance' being required to battle rising inflationary pressures. Instead, the ECB intends to 'monitor very closely' the situation in coming months, which indicates the possibility of a second hike in July.

According to calculations by Thomson Reuters based on Fed futures and overnight index swaps, a 25bp hike by the Fed is now not fully priced-in until January 2012 and a similar hike by the Bank of England not until February 2012. However, for the Eurozone, the next

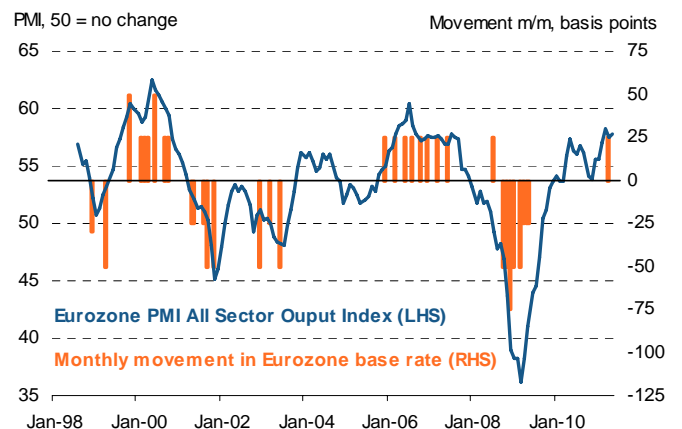
## US all sector PMI and policy rate changes



## UK all sector PMI and policy rate changes



## Eurozone all sector PMI and policy rate changes



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25bp hike is fully priced-in by July, with another 25bp hike priced-in by October.

The business surveys for April help explain the increased need for future rate hikes by the ECB relative to the US Fed and Bank of England. Most importantly, economic growth is proving to be far more resilient in the Eurozone than in the UK and US, where survey data turned down sharply in April. In the Eurozone, the Markit PMI survey – which has exhibited a close relationship with rate decisions – in fact turned up in April as growth boomed in both France and Germany, adding to scope for second-round inflationary effects to develop. While the Eurozone PMI is firmly in rate-hike territory, the case is less certain in the UK, while the ISM PMI data for the US have slipped back into rate-cut territory.

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