Tigress Financial Partners

Update - BOE Decision– Chief Economist Jean Ergas

August 5, 2016

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Focus on the UK – Bank of England

Attention continues to focus on action out of London

Action continues to focus on the Bank of England's decision to cut rates. We are comforted to know that the UK central bank is ready to take further action if necessary. This however raises the question of what the "trigger" metrics are likely to be for a further descent into depths as yet unplumbed.

Carney not operating within a conventional context – where are the trigger points?

The Federal Reserve and the ECB are operating within a macro context and more or less defined targets – be they inflation, employment or both. Carney's task is no longer to "make the numbers" but to prevent slippage from low growth – shallow recession to something worse.

Will imported inflation put paid to devaluation boost?

Where are the limits? When does a mild recession turn into a long term reduction of the potential growth rate? Previously purchasing power was boosted by quasi-nil inflation. Now a sharply devalued currency in a country with a massive current account deficit may soon put paid to this support as import prices stage a "step function" increase.

BOE needs to manage to "slippage" into systemic risk – other major central banks cyclical focus

What impact shall the BOE's action have on other central banks?
The key point is that the UK central bank's actions are not dictated by the same strictures as their cohorts. The Federal Reserve, ECB and BOJ maintain a dogged belief in cyclical management. They are adjusting monetary policy in what they see as an – albeit modest – upswing.

Where do you shoot first?

The Bank of England is contending with a complete re-casting not only of external trade and inward investment but a repricing across all asset classes. Where does it shoot first? Which is more important – avoiding a cratering of the property sector or slowing imported inflation?

Property sector remains key – cannot live on Russian flight capital

We continue to focus on the "all powerful" property sector and expect the price declines to accelerate as liquidity starts to dry up. An economic expansion born of Russian flight capital unable to secure "landing rights" elsewhere does not represent a solid long term support.

We still see London as a major global center but see the emphasis shifting from the "weight of money" to the "value of money". The buyers may be richer but they shall not be seeking to recycle but to invest.

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We do not see Federal Reserve changing course!

Some are murmuring that the US central bank shall desist from raising rates due to the "New Look" of UK monetary policy. The concern is avoiding an increase in the US Dollar – seen as de-stabilizing. We see this as off the mark – as the pound needs to be seen its specific context and not as part of the broader "community of currencies".

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