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Event Update

BoE raises interest rate for second consecutive meeting

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Pound may rally further on aggressive monetary tightening

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Key Highlights:

- Bank of England increased its bank rate to 0.5% from 0.25%
- Out of nine MPC members five voted to increase bank rate by 25 bps
- Out of nine MPC members four voted to increase bank rate by 50 bps
- MPC voted unanimously to begin to reduce the stock of UK government bond purchases
- Central bank forecast inflation will increase to 7.25% in April 2022

Guidance on inflation, economic activity:

- The central bank said the impact of emergence of Omicron variant on economy is likely to be limited and of short duration. GDP is expected to recover from February onwards such that output may return to its pre-pandemic level by the end of first quarter
- Unemployment rate is expected to fall further in the near term to 3.8% in Q1 2022
- Inflation is expected to increase further in coming months towards 7.25% in April

Impact on pound:

The pound may continue its positive bias on aggressive monetary tightening to combat elevated inflation. Bank of England (BoE) raised its interest rate for a second consecutive meeting to 0.5% and even decided to unwind its £895 billion quantitative easing programme by not allowing to reinvest when they mature. Additionally, expectation of decline in unemployment rate and forecast of elevated inflation in coming months will strengthen the case for further monetary tightening. GBPUS$ has bounced back from its December low of 1.3170 and made a high of 1.3750 level on hawkish BoE stance. As long as GBPUS$ sustains above 1.3350 it may rally back to 1.3750.

Source: BOE, Reuters, Bloomberg, ICICI Direct

Central bank to reduce size of its bondholding

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Monetary Policy statements:

- Bank of England's Monetary Policy Committee (MPC), to meet the 2% inflation target and sustain growth, employment, voted by a majority of 5-4 to increase the bank rate by 0.25 percentage points, to 0.5%
- Those members in the minority preferred to increase the bank Rate by 0.5 percentage points, to 0.75%
- The committee voted unanimously for the BoE to begin to reduce the stock of UK government bond purchases, financed by the issuance of central bank reserves, by ceasing to reinvest maturing assets
- The committee also voted unanimously for the BoE to begin to reduce the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, by ceasing to reinvest maturing assets and by a programme of corporate bond sales to be completed no earlier than towards the end of 2023 that should unwind fully the stock of corporate bond purchases
- The committee reaffirmed that it will consider beginning the process of actively selling UK government bonds only once the bank rate has risen to at least 1%, and depending on economic circumstances at the time

Asset Purchase Facility (APF):

- As of February 2, 2022, the total stock of assets held in the APF was £895 billion, comprising £875 billion of UK government bond purchases and £20 billion of sterling non-financial investment-grade corporate bond purchases
- Consistent with the committee's decision at this meeting to begin to reduce the stock of UK government bond purchases, the £27.9 billion of cash flows associated with the redemption of the March 2022 gilt held by the APF would not be reinvested
- In total, over 2022 and 2023, just over £70 billion of UK government bonds held by the APF would mature, and over 2024 and 2025 around a further £130 billion of bonds would mature

Calendar- Major central bank monetary policy meeting schedule 2022

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Date	US Federal Reserve	European Central Bank	Bank of England	Bank of Japan
18-Jan-22	-	-	-	√
27-Jan-22	√	-	-	-
03-Feb-22	-	√	√	-
10-Mar-22	-	√	-	-
16-Mar-22	√	-	-	-
17-Mar-22	-	-	√	-
18-Mar-22	-	-	-	√
14-Apr-22	-	√	-	-
28-Apr-22	-	-	-	√
04-May-22	√	-	-	-
05-May-22	-	-	√	-
09-Jun-22	-	√	-	-
15-Jun-22	√	-	-	-
16-Jun-22	-	-	√	-
17-Jun-22	-	-	-	√
21-Jul-22	-	√	-	√
27-Jul-22	√	-	-	-
04-Aug-22	-	-	√	-
08-Sep-22	-	√	-	-
15-Sep-22	-	-	√	-
21-Sep-22	√	-	-	-
22-Sep-22	-	-	-	√
27-Oct-22	-	√	-	-
28-Oct-22	-	-	-	√
02-Nov-22	√	-	-	-
03-Nov-22	-	-	√	-
15-Dec-22	√	√	√	-
20-Dec-22	-	-	-	√

Source: US Federal Reserve, Bank of Japan, European central Bank and Bank of England, ICICI Direct

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