BANK OF ENGLAND HEADLINES THE WEEK

This week the Bank of England surprised nobody by taking the emergency action Mark Carney had promised to prop up the economy following weeks of deteriorating economic forecasts and survey data post Brexit. The headline rate cut is difficult to judge – rates are now half what they were, so potentially could have an impact, but in absolute terms the quarter percent cut looks quite meagre. What is more interesting is the supporting actions that have been designed to magnify the impact of the move.

Along with the resumption of QE was an announcement that the BoE will be actively assisting high street banks in refinancing to be able to pass the rate change on to their customers. This is the clearest signal yet that highlights that normal transmission mechanisms are failing and that the central bank is right at the limit of what it can do through conventional, or even semi-unconventional, means. Helicopter drops perhaps can't be far behind if the economy continues to falter.

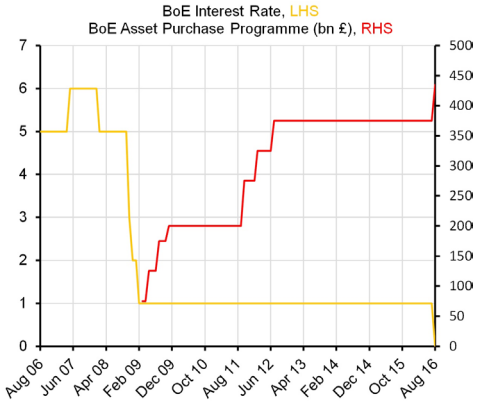
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Hang Seng	Euro Stoxx	US 10 Yr	UK 10 Yr	Germ 10 Yr	Brent Crude	Gold	GBP USD
0.44%	-0.27%	-1.90%	-0.13%	-1.70%	+0.04%	-0.05%	+0.03%	+4.15%	+0.76%	-0.59%

CENTRAL BANKS: STIMULUS TO CUSHION BREXIT SHOCKS

The Bank of England delivered a predictable decision on Thursday, cutting interest rates to record lows in an effort to prevent any deeper shocks to the UK economy following Brexit. A massive bond-buying program of £70bn was also unveiled by the BoE, along with a £100bn Term Funding Scheme – which essentially provides a borrowing stimulus for UK banks. The latter is surprising, as the BoE has taken a steadfast approach to tackling the risk of a looming recession by starting a quantitative easing programme early on.

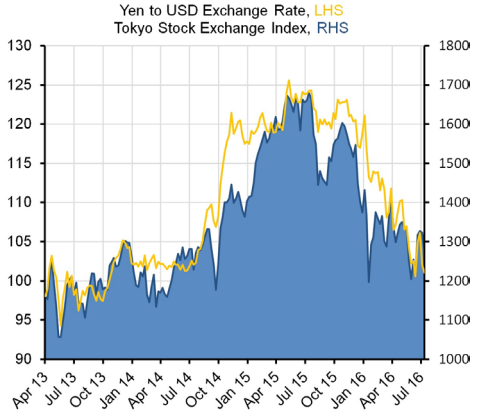
Meanwhile in Europe, the European Central Bank reported that more than 20 per cent of the bonds purchased in its corporate bond-buying scheme have a negative yield. The QE programme, which started in June, has already completed £11.2bn of purchases of corporate debt, mainly in consumer goods companies as the monthly ECB report outlines. The ECB claims the effects of the programme were immediate, by reversing a trend of widening of spreads triggered by Britain's decision to leave the EU. Generally, though, spreads were falling for eligible and ineligible securities, even before ECB started buying them out.



JAPAN: ANOTHER BOOST OF ABENOMICS

Japan's prime minister Shinzo Abe, announced a new round of fiscal stimulus to the size of ¥28.1tn, or $276bn, earlier this week. The measures are seen as an effort to revitalise the lagging Japanese economy, which suffers from weak consumer confidence and falling exports, a result of the stronger yen. The priorities outlined in the latest package include welfare spending, infrastructure, disaster re-construction, and to provide aid to small and medium-sized businesses. Scepticism however remains that the nudge to growth may not exceed 0.1 or 0.2 per cent of GDP, as preceding stimuluses have failed to offer any significant boosts either.

Abe' efforts to steady the rising Japanese yen have not delivered the expected result either. The yen surged in the second quarter of this year gaining 9 per cent against the US dollar and 12 per cent against the euro, a trend driven largely by investors' flight to safe haven currencies. The strong yen is also blamed for the forecasted quarterly fall of 25 per cent in year-on-year profits of Japanese companies.



INDIA: HOPEFUL OF CHANGE

News this week from New Delhi has revived confidence in Narendra Modi's government, after the long-awaited Goods and Services Tax (GST) bill was approved by Parliament. The new bill will establish a unified tax structure, replacing multiple indirect tax schemes which enlarge the cost of goods and services by between 25 and 40 per cent. While the exact impact on growth is difficult predict, a boost to the Indian economy is most likely, with estimates signalling a 0.8 to 2 percentage point increase to GDP over the medium term.

An additional tailwind for the economy stems from the bountiful monsoon season, after two previous consecutive years of disastrously poor seasonal rainfall. The agricultural sector, in which nearly two-thirds of India's population are employed, had negative growth for those years which led to a spike in food inflation. A healthy monsoon could spur rural consumption in durable consumer goods and encourage investment in other sectors, which would be a welcome lift for the Indian economy.