The following are excerpts from 3 Reuters articles in recent weeks focussing on the divergent monetary policies for the three key Central Banks globally . The articles were published by Reuters on July 18th & 31st and on August 1st,   as referenced below.

This week's news highlights the divergence in global monetary policy among the three main Central Banks: the European Central Bank, the US Federal Reserve, and the Bank of England. The minutes from each bank's latest meeting reveal decisions on potential interest rate cuts, along with the underlying reasons for controlling inflation and stimulating the economy.

ECB keeps rates unchanged - September move "wide open".

Reuters (2024) reports that The European Central Bank kept interest rates unchanged as expected at its July meeting but said September's meeting was "wide open" as it downgraded its view of the eurozone's economic prospects and predicted that inflation would keep falling:

> The ECB cut rates from record highs in June in a move that even some of its policymakers considered rushed, given stalling disinflation, and the bank is proving more cautious about a follow-up step.There were a few hints to support investor bets on another reduction in September, however, including ECB President Christine Lagarde's comment that risks to growth were "tilted to the downside" - a change to her previous formulation that they were balanced, at least in the near-term.
>
> Lagarde said growth was likely to have slowed in the second quarter and that investment activity along with poor industrial output point to muted expansion ahead. The comments reinforce expectations that weak activity will continue to suppress price pressures in the economy, allowing the ECB to cut rates further, perhaps once a quarter. But the ECB has burnt itself repeatedly by providing overly specific guidance, so this time Lagarde said the bank would not pre-commit to any rate path and data would guide decisions. "So the question of September and what we do in September is wide open," said Lagarde, who also chose not to repeat a comment she made after June's rate cut that there was now a "strong likelihood" the dialling back of monetary policy was underway
>
> Reuters (2024)

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Some also took her comments on wages as a modest hint that further policy easing is coming. “While wage growth remains high, anaemic activity and already settled wage deals point to a slowdown ahead and income growth is expected to be consistent with the ECB's inflation target next year”, Lagarde said.

TWO MORE CUTS IN 2024?

The September meeting will come at around the time that markets also see the U.S. Federal Reserve cutting. Markets are pricing in almost two ECB rate cuts for the rest of the year and a little more than five moves by the end of next year, a view no policymaker has openly challenged for weeks. A key issue in providing specific guidance is that the September 12th policy meeting is unusually far away and a rich set of economic data will come out before policymakers meet again. Quarterly figures on growth, wages and productivity are all due out by September, plus two more monthly inflation readings, while the ECB will give its own new inflation and growth projections at the meeting.

The ECB's key concern is that domestic prices, particularly for services, are moving sideways, while relatively quick wage growth threatens to perpetuate inflation above the ECB's target.

Powell puts September rate cut on table after Fed leaves borrowing costs unchanged.

In the US, Reuters (2024) reports that the Federal Reserve maintained interest rates at the same level during its July meeting. U.S. central bank chief Jerome Powell indicated that policymakers might be prepared to lower borrowing costs as early as the September meeting, bolstered by recent data that aligns with their 2% inflation target.

Federal Reserve chief Jerome Powell’s remarks at his press conference following the end of the Fed's latest two-day policy meeting, appeared as an affirmation of a coming pivot in September that was partly reflected in the central bank's new policy statement.

Reuters (2024)

"There has been some further progress toward the Committee's 2% objective," the policy-setting Federal Open Market Committee said in the statement after deciding to keep the central bank's benchmark overnight interest rate in the 5.25%-5.50% range. Powell went further, telling reporters "there is a growing sense of confidence that you could move at the next meeting" as long as coming inflation data affirms its recent softening trend.

The Fed uses the personal consumption expenditures price index for its 2% annual inflation target. The PCE price index rose 2.5% in June after exceeding 7% in 2022, and the month-to-month readings recently, have shown it even closer to target.

Investors saw Powell's comments as clearly setting the stage for a reduction in borrowing costs at the Fed's Sept. 17-18 meeting, just seven weeks shy of the Nov. 5 U.S. elections. Interest rate futures, stocks and Treasury bonds all rallied hard on Powell's remarks, so much so that the probability of a first cut in September being as large as half a percentage point jumped to about 15%, according to CME Group's FedWatch tool. Powell, however, said a 50-basis-point cut was not something under active consideration.

DUAL MANDATE.

While Fed officials are wary of any actions that could mar their data-not-politics approach to setting monetary policy, the steady drop in inflation in recent months prompted a broad consensus that the inflation battle was near an end. Inflation, the Fed said, was now just "somewhat elevated," a key downgrade from the assessment that it has used throughout much of its battle against rising prices that it was "elevated."

"We have made no decisions on future meetings" when it comes to rate cuts and all policy decisions will be made on a meeting-by-meeting basis, Powell said at his press conference. But he added that as Fed officials have been gaining confidence that price pressures are moderating, "the economy is moving closer to the point where it will be appropriate to reduce our policy rate."

U.S. central bankers have said it would be appropriate to reduce borrowing costs before inflation actually returns to their target to account for the time it takes monetary policy to affect the economy. So far the economy "has continued to expand at a solid pace," the Fed said in its statement, and while "job gains have moderated," the unemployment rate "remains low." But the jobless rate has been rising, and policymakers have put more focus of late, on avoiding the sort of sharp rise in unemployment often associated with high interest rates and slowing inflation.

The Fed did not commit in its statement to a rate cut in September, and repeated that policymakers still need "greater confidence that inflation is moving sustainably toward 2%" before lowering borrowing costs.

But the changes seem consistent with that confidence being reached by September, something investors have been expecting. The new policy statement was approved unanimously.

Reuters (2024)

Bank of England cuts rates from 16-year high, yet 'careful' on future moves.

Reuters (2024) reports on the UK's, noting that the Bank of England (BoE) has reduced the interest rates from a 16-year peak by a quarter-point to 5% last week. This decision came after a close vote, reflecting the policymakers' split opinion on whether inflation pressures have sufficiently subsided. Reuters (2024) highlights the BoE's Monetary Policy Committee's intention to proceed with caution in the future.

BoE Governor Andrew Bailey said in a statement alongside the decision,"we need to make sure inflation stays low, and be careful not to cut interest rates too quickly or by too much." Rates have been on hold for almost a full year - the longest period rates have been left unchanged at the peak of a BoE tightening cycle since 2001 - and this is the first cut in rates since March 2020, at the start of the COVID-19 pandemic. In June the BoE voted 7-2 to keep rates on hold, and minutes of the most recent meeting showed the decision to cut rates had been "finely balanced" for some members - echoing the language used previously when rates were kept unchanged.

British consumer price inflation returned to the BoE's 2% target in May and stayed there in June, down from a 41-year high of 11.1% struck in October 2022. This leaves British inflation lower than in the eurozone - where the European Central Bank cut rates in June - and in the United States, where this week the Federal Reserve kept interest rates steady but opened the door to a September cut.

INFLATION TO RISE.
However, the BoE expects headline inflation to rise to 2.75% in the final quarter of the year as the effect of last year's steep falls in energy prices fades, before returning to its 2% target in early 2026 and later sinking below. The long time lags for interest rates to affect inflation mean the BoE is more focused on what it sees as medium term drivers of inflation: services prices, wage growth and more general tightness in the labour market.

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The BoE now thinks Britain's economy will expand by around 1.25% this year, revised up from its previous forecast of 0.5%, reflecting stronger-than-expected growth during the first half of this year.Unemployment will rise slightly as high interest rates continue to bear down on growth, as the forecasts showed, reducing upward pressure on inflation. However, the BoE acknowledged the risk that inflation pressures might prove more persistent and keep inflation above target for longer than its main forecast.

Before the meeting, financial markets priced in two quarter-point cuts by the BoE this year. The BoE forecasts were based on market expectations which show interest rates falling to about 3.7% by the end of 2026.

Reuters (2024)

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