FINANCIAL MARKETS

BREXIT & THE BANK OF ENGLAND

BLACKWELL GLOBAL

BLACKWELL GLOBAL

THE BLACKWELL ADVANTAGE

BLACKWELL GLOBAL

Blackwell Global is a global brokerage, aiming to be the most trusted financial service provider. We are committed to transparency, integrity and service excellence.

Founded in 2010, we now have global presence in over 90 countries, with main offices in the separately regulated markets of Australia, Cyprus, New Zealand and the United Kingdom.

We believe that sound investment and trading decisions begin with a strong grounding in financial education. Our goal is to make this available to everyone - and this free eBook is part of that commitment.

To find out more about Blackwell Global, please visit: www.blackwellglobal.com

BLACKWELL GLOBAL

MONETARY POLICY CHANGES

FOREWORD

For only the second time since the global financial crisis of 2008, the Bank Of England has increased its benchmark interest rate.

Usually, interest hikes are indicative of a thriving economy. However, this isn't necessarily the case with the United Kingdom.

As Brexit looms, its impact on the UK economy is less clear. The purpose of this eBook is to analyse where the Bank Of England's monetary policy is heading.

Patrick Latchford
CEO, Blackwell Global Investments (UK) Limited

BLACKWELL GLOBAL

INTEREST RATE HIKES

OVERVIEW

As most traders know, we're living in an age of historically low-interest rates. This is a symptom of the global financial crisis of 2008.

In order to spark the global economy back to life, the major central banks adopted close to zero interest rates.

Only in the last few years have we seen some of the world's major economies tighten their monetary policy. The Federal Reserve has taken the lead in this regard, starting its cycle of interest rate hikes back in 2016 as the US economy continued to gain strength.

The Bank Of England has recently followed suit, hiking its benchmark interest rate from 0.5% to 0.75%. But as we'll explore in this eBook, the reasons for doing are quite different.

WHY INTEREST RATES MATTER

Before we analyse why the Bank Of England has hiked its interest rate, it's important to establish why interest rates matter.

Well, it's actually pretty simple. Interest rates can affect the strength of a currency. So by understanding a central bank's monetary policy objectives, Forex traders can place trades accordingly.

WHAT ARE INTEREST RATES?

Let's cover the basics. Benchmark interest rates are set by central banks. They are effectively the charge applied to commercial banks for borrowing money from central banks. The higher the interest rate, the more expensive it is for commercial banks to borrow money.

It's not unusual for commercial banks to reflect the benchmark interest rate in their own financial products. For instance, when the benchmark interest rate increases, commercial banks tend to increase their interest rates on mortgages and loans.

In fact, this is why central banks actually alter interest rates. By adjusting the rate, they can influence the money supply in an economy. Controlling the money supply is known as monetary policy.

So why would a central bank want to control an economy's money supply? Typically, it's because central banks are responsible for helping to manage two economic metrics: economic growth and

inflation.

Countries that have weak economic growth often have low-interest rates to increase the money supply. By making capital cheaper to access, central banks hope to encourage commercial banks to lend more to businesses and consumers, increasing economic growth.

However, countries that have strong economic growth can face inflationary pressure. Remember, inflation is the rate at which the costs of goods and services increases at an annual rate. By making capital more expensive to access, central banks hope to reduce the money supply within an economy, which stops inflation becoming too high.

Interest rates can also affect the value of the native currency due to the laws of supply and demand.

Higher interest rates usually act to strengthen the native currency, as the money supply is tightened. Currencies with higher interest rates are also attractive to wealthy investors, which increases demand.

Lower interest rates usually act to weaken the native currency, as the money supply is loosened.

BLACKWELL GLOBAL

WHAT'S BEHIND THE HIKE?

INFLATION WORRIES

Inflation is the primary reason for this rate hike.

But let's be clear. The Bank Of England didn't hike its benchmark interest rate because the UK economy is booming. While the UK economy is growing - it is doing so slowly (annual GDP is currently forecast at 1.5%).

Rather, the central bank is dealing with a consequence of the Brexit vote in 2016. In the aftermath of the referendum, the pound slumped against other major currencies - meaning imports became more expensive for British businesses.

The result of this has been higher prices for British consumer - and a ballooning inflation rate.

UK inflation hit a peak of 3.1% in November 2017. Since that time, it has cooled to 2.4% (July 2018) as the pound has recovered

strength - but this still overshoots the Bank Of England's 2% inflation target.

So his rate hike is intended to keep inflation at bay - but the Bank Of England clearly has one eye on the future too.

ROOM FOR BREXIT

The truth is, there could be more inflationary pressure ahead. The UK is officially due to leave the EU in March 2019 - and the prospect of 'No Deal' to facilitate post-Brexit trade between the UK and EU has the markets anxious.

Should 'No Deal' transpire, it's very likely we'll see the pound fall against its major peers, which would push inflation higher.

But it's not only rising inflation the Bank Of England might have to face. Depending on future trading arrangements, it's possible that the UK could experience economic turbulence as Brexit unfolds.

In this scenario, the Bank Of England might need to loosen the money supply to encourage economic growth.

This is why some analysts believe the Bank Of England has opted to increase rates now. By doing so, the central bank is giving itself room to cut rates again should it be necessary.

POUND STERLING

In Brexit, the Bank Of England finds itself in an unusual scenario. For that reason, it's quite difficult to forecast long-term prospects

for the pound sterling.

However, we believe the pound sterling's strength will be pinned to Brexit negotiations in the coming months, rather than monetary policy decisions taken by the Bank Of England.

Should a 'No Deal' Brexit look likely, we can expect to see the pound experience volatility.

READ
OUR FREE
TRADING
GUIDES
TAKE ME THERE

BLACKWELL GLOBAL

WHY BLACKWELL GLOBAL?

We can't pretend that is easy to become a successful trader. But we are here to help and support you as you make your trading journey, providing dedicated resources such as our demo trading accounts and regularly published research materials.

Founded in 2010, Blackwell Global was established to offer brokerage solutions for private and institutional clients. Blackwell Global is a Straight Through Processing or STP broker who provide their clients with superior liquidity and price feeds from top international banks. These are offered alongside 24-hour technical support, market research tools, educational materials, professional partnership programmes and fully integrated trading platforms.

We offer access to multiple asset classes including more than 60 currency pairs, precious metals and other contracts for differences. As a global broker, we are always striving to achieve excellence in our customer service, as well as developing innovative technology to support our customers needs.

BLACKWELL GLOBAL

Today, the Blackwell Global group of companies has a presence in over 90 countries, with its main offices situated in the individually regulated markets of Australia, Cyprus, New Zealand and the United Kingdom.

To find out more about Blackwell Global please go to:

www.blackwellglobal.com

Or contact Customer Support:

Tel: +44 (0)203 695 0898
Email: cs@blackwellglobal.com

Risk Warning: Forex and CFDs are leveraged products and involve a high level of risk and can result in the loss of all your invested capital. 71% of retail investor accounts lose money when trading CFDs with Blackwell Global Investments (UK) Limited. Therefore, Forex and CFDs may not be suitable for all investors, so please consider your investment objectives, level of experience, financial resources, risk appetite and other relevant circumstances carefully. Seek independent advice if necessary. Please consult our full risk disclosure and make sure you understand the risks before entering any transaction with Blackwell Global Investments (UK) Limited.

Disclaimer: The report provided by Blackwell Global Investments (UK) Ltd is meant for informative reading and should not be relied upon as a substitute for extensive independent research and is no guarantee of a successful trading outcomes. The opinions expressed in this eBook are do not take into account any particular individual's investment objectives, financial situation, or needs, and should not be interpreted as financial advice nor an encouragement to trade any investment product.