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# BANKING ON EUROPE

Wisdomtree EU  
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Mid-September 2018 was central bank week in Europe, as both the European Central Bank (ECB) and Bank of England (BOE) held policy meetings on the same day, 14 September. The outcome for both of these events did not necessarily break any new ground, but the results did offer some guidance for the UK and Eurozone bond markets going forward. More specifically, it appears as the stage has been set on the monetary policy front for the remainder of this year and into 2019.

Let's start with the BOE. Following the 25 basis point (bp) rate hike at the prior meeting in early August, no changes were implemented this time around, and their asset purchase program remained constant as well. The lack of a follow-up tightening move was certainly no surprise, as the markets were expecting this type of a result.

What about going forward? For the near-term, the UK policymakers seemed to be slightly more optimistic, revising their 3Q 2018 GDP growth estimate upward by 0.1 percentage points. However, looking beyond the here and now and into 2019, the assessment highlighted greater uncertainty around Brexit, as well as potentially increased risks coming from trade and the emerging markets (EM). Nevertheless, the current policy stance still sees the need of ongoing tightening, but that any future rate hikes should remain "limited and gradual."

Now it's the ECB's turn. Once again, no surprising outcomes here either, as the previously announced timeline for continued tapering and ending quantitative easing remained in place. In addition, the intention to keep their balance sheet constant when new purchases end also remains the plan, and will be achieved by reinvesting any maturing/redeemed proceeds from their investments. ECB President Mario Draghi stated in the post-meeting press conference that policymakers have not yet discussed what this reinvestment strategy would ultimately look like. Interestingly, there had been conjecture that the ECB would perform their own version of the Fed's Operation Twist, whereby maturing proceeds would be recycled into longer-dated maturities more so than shorter-dated ones, but Draghi mentioned no such discussions have yet take place. In other words, stay tuned.

Much like the BOE, the ECB acknowledged risks from "protectionism", i.e. trade, as well as specifically mentioning Emerging Market countries Turkey and Argentina. Fiscal policy issues were also highlighted, no doubt a nod to the ongoing budget saga in Italy. The ECB's inflation estimates were left largely unchanged, but they did revise their growth estimates 0.1pp lower for both this year and 2019.

## Conclusion

So, where does this leave the UK and Europe fixed income markets? Draghi reiterated the continued need for "significant stimulus" going forward to achieve the ECB's inflation goals, while the BOE seems to be on a slow trajectory for rate hikes with their own

asset purchase program remaining in place. In other words, both central banks apparently do not foresee any urgency to switch policy course anytime in the near future to a more 'hawkish' stance. This point was underscored by the ECB's stance that they will keep rates unchanged at least through the summer of 2019. As a result, a spike in yield in either the bund or gilt arenas does not seem likely in such an investment landscape. Meanwhile, on the other side of the Atlantic, the Federal Reserve appears poised to continue being the 'band leader' on the policy normalization front, and is widely expected to raise rates on 26 September and then potentially again in December.

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