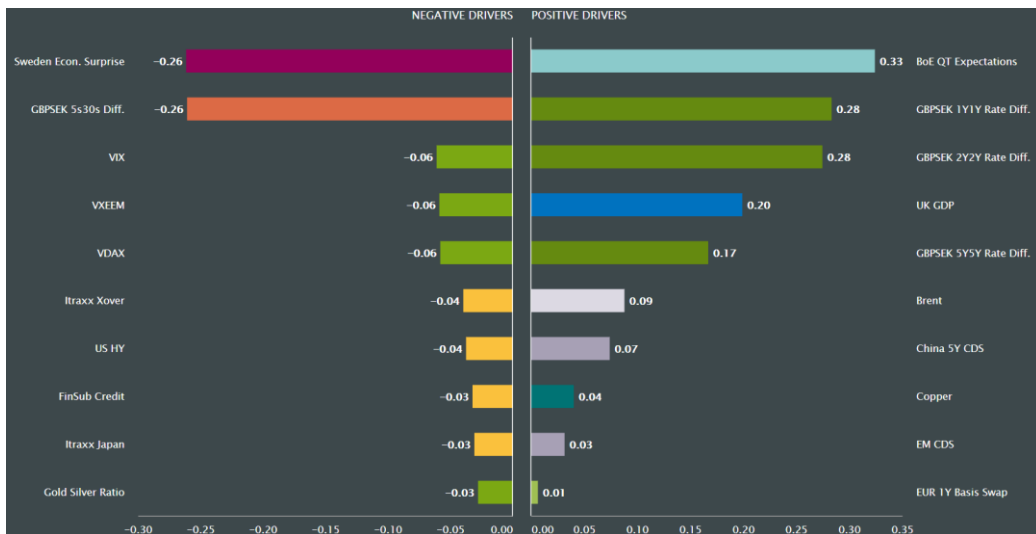




## BoE Quantitative Easing & the Pound

- Today's Bank of England meeting will be closely watched for any signs of a taper in their asset purchase programme. **The Pound's sensitivity to BoE QE has crept higher of late.**
- Most GBP fx crosses are close to macro model value. Of those in regime, only the [GBPCHF](#) model is more than 0.5 sigma away from macro fair value ( $0.7\sigma$ , 2.2% cheap to model). But, in terms of stress testing different BoE policy announcements, which crosses are likely to react to a taper tantrum style scenario?



- BoE QT expectations are now the biggest single positive driver for [GBPSEK](#) (chart above). There is no valuation edge, the cross is at macro fair value. The percentage impact is similar for [EURGBP](#) but this time there is a small valuation edge with the Euro 0.4 sigma (0.9%) rich to model. Both offer relatively **efficient vehicles for any hawkish BoE surprise.**
- Note also nominal interest rate differentials feature as strong drivers in both models. A hawkish BoE that shocks UK rates higher relative to Euro/Krona rates would add further impetus to Sterling upside.
- [Cable](#) is at fair value & this time sensitivity runs in the opposite direction. Ongoing QE is a marginal plus for the Pound.

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