



– **DAILY COMMENTARY** BY THE CURVE TEAM –

MONETARY POLICY DIVERGENCE TO CONTINUE

11th of May, 2018

Inflation was the highlight overnight with updates on both sides of the Atlantic. US inflation bounced back in April after a weaker read in March while the BoE softened its inflation outlook casting doubts over its monetary policy path. Both confirm that the trend of monetary policy divergence remains in tact.

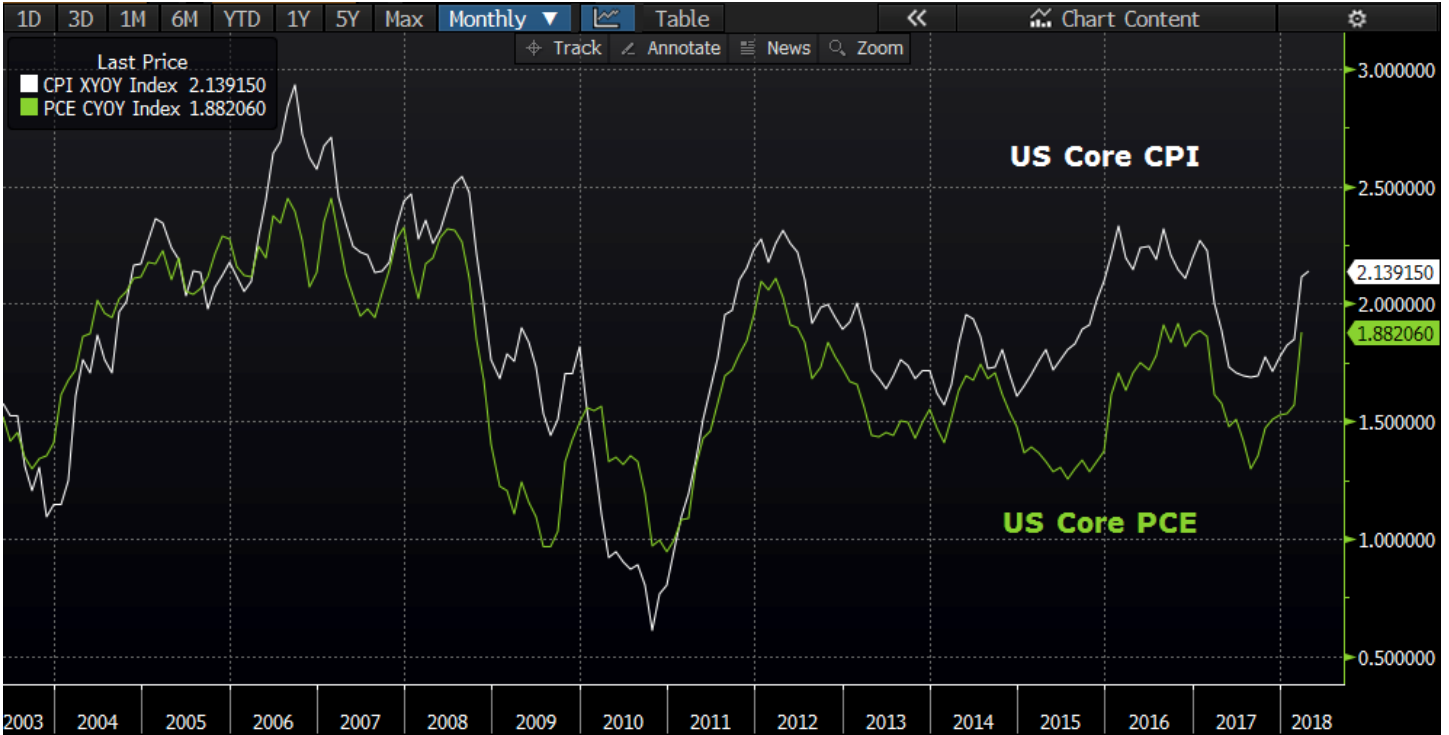
The inflation read in the US overnight was characterised as soft, largely due to the fact that it missed estimates. That interpretation was probably influenced somewhat by recent [Fed](#) comments suggesting higher inflation was on the way.

By the numbers, headline CPI was up 0.2% against estimates of a 0.3% rise following the previous month's 0.1% fall. The annual rate was in line with estimates at 2.5%. The index excluding food and energy was up 0.1%, also in line with estimates with the rise a little slower than the 0.2% increase the previous month. The annual rate was a marginally higher but on a rounded basis remained at 2.1%.

The key here is that the trend in inflation in the US is higher and the data does little to change the outlook as far as the [Fed](#) will be concerned.

Across the Atlantic and the Bank of England softened its stance a little following a softening of data over the past month and worries over the impact of Brexit on confidence and activity. Much like their NZ counterparts, the Bank of England downgraded both its growth and inflation forecasts. It still didn't stop two members from dissenting and voting for hikes.

The theme of monetary policy divergence continues with the US seemingly the only major central bank to be on a solid path towards normalised policy. The BoE, ECB and BoC would all like to follow their lead but don't quite have the preconditions to match the resolve of the [Fed](#).



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