# LH Meyer



On Thursday, June 23, the U.K. will vote on whether to remain in the European Union.

The Fed, the BoE, the ECB, and the BOJ have reportedly been holding discussions to make sure financial markets remain stable in the event of a vote to leave the EU.

In the event of a vote to exit, central banks would likely issue public statements reiterating that their existing currency swap lines and liquidity facilities (in dollars and other currencies) remain in place. Further actions may include possible G-7 coordinated FX intervention.

**Federal Reserve**

On the monetary policy front, Yellen noted that Brexit was a consideration at the June FOMC meeting.

"I think it's fair to say that [Brexit] was one of the factors that factored into today's decisions....It is a decision that could have consequences for economic and financial conditions in global financial markets. If it does so, it could have consequences, in turn, for the U.S. economic outlook that would be a factor in deciding on the appropriate path of policy. So, it is certainly [one] of the uncertainties that we discussed. And that factored into today's decision."

She also cited Brexit consequences following a vote to leave the EU as a consideration affecting rate-hike decisions going forward:

"International uncertainties loom large here. We mentioned Brexit, the U.K. decision. Obviously how that turns out is something that will factor into future decisions."

To the degree that there is a lasting worsening of financial conditions in the U.S., that could weigh on the decision in September.

The morning after a vote to leave, the Fed would likely issue a statement reminding the public that liquidity swap lines with other central banks are open. It could also, depending on the impact on financial conditions, hold a conference call with FOMC participants the next day to review actions already taken, to hear about financial developments from the head of the New York Fed's Markets Group and Board staff, and to review actions by and discussions with other central banks.

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The Fed's liquidity swap lines with the Bank of Canada, the BoE, the ECB, the BOJ, and the Swiss National Bank (both for the dollar and the respective foreign currencies) are standing arrangements that will remain in place until further notice.

Click here [https://www.federalreserve.gov/newsevents/press/monetary/20100509a.htm] for an example of the sort of statement that the FOMC could issue to remind the public of its capacity to provide dollar funding, an FOMC statement from May 2010 that was written in response to the emerging euro crisis. This statement was released immediately after an unscheduled FOMC meeting to discuss urgent developments.

**Coordinated G-7 FX Intervention**

A vote to leave would likely make the G-7 seriously consider coordinated intervention to push back against undesirable volatility in foreign exchange markets. The pound could depreciate substantially following a leave vote, with potentially low liquidity magnifying fluctuations. The intervention would be coordinated between the ministries of finance of each country, although the central banks would certainly be consulted. Particular attention is being paid to the yen and the BOJ for several reasons: the vote result will probably come in during the Asian trading day; the Japanese yen is likely to be the other major safe-haven currency, in addition to the U.S. dollar, rather than the euro; and with the yen already having strengthened in recent months, the BOJ is likely already inclined to sell yen for other policy reasons.

**Bank of England**

At the BoE meeting on June 15, the MPC discussed its contingency plans, which include the enhanced supervision of major financial institutions to ensure they have sufficient liquidity, including in foreign currencies; the BoE's sterling liquidity facilities, including the additional Indexed Long-Term Repo (ILTR) operations for the weeks around the vote; the access of many U.K. banks with foreign operations to liquidity facilities of foreign central banks; the BoE's continuing weekly dollar repo operations and its maintenance of swap lines with other central banks; and a number of financial stability measures available to the Financial Policy Committee.

**European Central Bank**

Draghi and other members of the General Council of the ECB have a meeting in Frankfurt scheduled for June 23, the day of the vote. If the UK votes to leave, the ECB would likely issue a public statement in the morning after the vote, saying it will backstop financial markets to maintain adequate market liquidity. Part of the pledge would be opening swap lines with the Bank of England to provide funding in sterling and euros to European banks.

At his most recent press conference, Draghi said: "On [what specifically the ECB is doing to prepare for Brexit], the ECB is ready for any outcome...The ECB is ready for all contingencies."

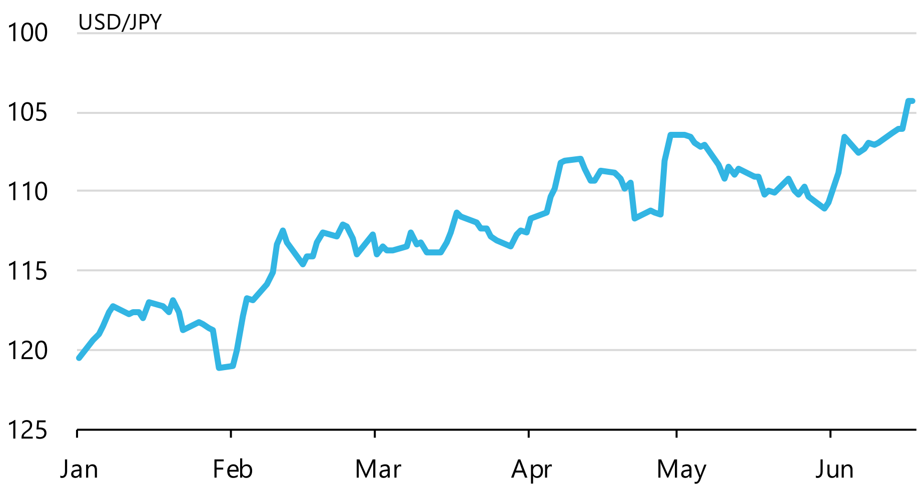
ECB board member Nowotny noted: "We have taken the necessary precautionary measures to meet liquidity needs...We have assured that there will be no liquidity bottlenecks, either among English banks or European banks, if it becomes necessary."

The weekend after the vote, global central bank leaders will gather for their annual meeting at the BIS, where global central bank governors will be discussing the financial market impact of the vote, how various central banks have already acted, and if any coordination among central banks is warranted.

**Bank of Japan**

The yen, like the dollar, would see safe-haven inflows with a leave vote. But the yen has already been strengthening against the dollar and the euro, which could weigh on BOJ policymakers concerned about the Japanese economy. Japanese sovereign yields reached record lows as a result of the impending U.K. vote. The market generally sees Japan as being likely to intervene if the yen strengthens to below 100 against the dollar.

**Japanese Yen / Dollar Exchange Rate**




*Sources: Bloomberg, LH Meyer.*

In his press briefing on June 16, Kuroda said that the Brexit vote is "making international financial markets somewhat unstable" and that the BOJ has ways to respond to any surges in dollar costs. He added that he has been in close contact with other major central banks, including the Bank of England, to make sure bond markets remain liquid and dollar funding costs are stable.

Reports indicate that the BOJ could offer dollar funding with five other central banks, including the BoE and the ECB, using a pre-existing dollar funding framework. The BOJ already lends dollars to its banks weekly, but it could do so daily if needed.

As for monetary policy, the BOJ is expected to ease further, and soon. If there are repercussions on financial conditions in Japan following the vote, specifically a further appreciation in the yen, the easing could come immediately.

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FOMC Statement Comment: Six at One

FOMC Chatter Ahead of the June 2016 Meeting

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