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FLASH REPORT

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BoE: Rate Hold with Emphasis on Long Wait Before Cuts

- **Today's Bank of England decision was as uneventful as they get for markets, with an unchanged 5.25% policy rate in a 6–3 split vote, and respectively lower and higher GDP growth and inflation forecasts that did not surprise.**
- **Changes to the key sections of the statement were minor with the possible exception of the BoE noting that their new forecasts suggest "policy is likely to need to be restrictive for an extended period of time." This is supported by the BoE's projections that see inflation only reaching the low-2s in late-2025, despite the imposed rate-path not showing a rate cut until late-2024.**
- **Today's decision has no significant implications for our BoE outlook. We see rate cuts starting in Q2 (totaling 50bps) towards an end-24 bank rate of 4.25%, with upside inflation risks pointing to perhaps a later start to easing.**
- **The statement and MPR release had a limited impact on UK assets, and moves here were dominated by broad market swings on the US ULC data miss. Bailey's presser had a bit more to move markets but, overall, UK assets are in relative terms little changed to where they traded before the decision. Gilts are still outperforming on the day, and the GBP is still an underperformer among the majors.**

Today's Bank of England decision was as uneventful as they get for markets. The bank rate was left unchanged at 5.25% with a 6–3 hold-hike vote split, as was widely expected. In its updated MPR projections, the BoE lowered its GDP growth forecasts and lifted its CPI forecasts across the outlook horizon, with no material surprises. Key guidance and economic assessment sentences only saw slight adjustments, some in a more hawkish direction, some in a more dovish direction.

The decision has no significant impact on our outlook for the BoE. We see rate cuts starting in Q2 (totaling 50bps) towards an end-24 bank rate of 4.25%. Upside risks to inflation, mostly around energy prices, mean the BoE may instead start cutting in early-Q3 or only cut 25bps at end-Q2. As things stand, we remain data dependent like the BoE.

The statement and MPR release gave the GBP a minor lift and saw gilts across the curve chop around for thirty minutes before a miss in US ULC data had a much larger impact on UK assets. Since around the halfway mark of Bailey's presser the broad market rally stalled and gilts and the GBP have underperformed. This overall leaves UK assets just moving in line with the broader market and, in relative terms, little changed to where they traded before the decision.

At writing (~10ET), the GBP is a low-end performer among the major currencies, with a 0.4% gain that falls short of the EUR's 0.8% rise on the day (GBPEUR only down 0.1% since statement). The 10bps drop in UK 2yr yields is much larger than that of US and German 2s (1/2bps and 3/4bps, respectively), but from pre-statement levels UK and US 2s have both fallen ~3bps, and it's a similar story in 10s.

There was little to suggest that the BoE is giving serious thought to hiking again, but the focus today was instead on reinforcing their message that rates will need to remain elevated for "sufficiently long". The main change to the statement was the inclusion of this sentence: " The MPC's latest projections indicate that monetary policy is likely to need to be restrictive for an extended period of time."

Today's higher inflation forecasts reinforce this view. The imposed market-implied path for the policy rate shows the first BoE rate cut only until as Q4-24. Even with this long wait the mean projection does not have inflation falling to the low-2s until late-2025. At end-2025, the MPC's (preferred) market mean scenario sees inflation at 2.2%, only falling to 1.9% at the end of 2026; even if the BoE rate remains at 5.25%, their models shoot out 2.0% and 1.6% at end-25 and end-26, respectively.

Bailey's press conference provided some interesting soundbites but none of these should be all that new. The BoE did not discuss rate cuts at this week's meeting, that's not new (though maybe some thought dove Dhingra would bring this up). Bailey said that the UK's labour market has loosened more than they projected in August, and he again pointed to private measures showing a faster slowdown of wage growth than those published by the ONS. The conflict in the Middle East is an upside risk to inflation, as other G10 central bankers have also said.

What may have helped gilts a bit during the presser, amid the noise of external market drivers, was Bailey saying that the bank should not keep restrictive policy for too long—but all central banks have this in mind. What may have weighed on gilts during the presser (same conditions apply), was Bailey saying that they are not trying to move the curve around. It's not a conventional policy move but central bankers in the current cycle have tended to push back on offside market pricing if they feel it's over- or under-done. But a market that has assimilated today's decision as one that reduces the odds of hikes was also happy to add to cuts around mid-year. Ahead of this Bailey comment, pricing for the August meeting was about 4/5bps lower vs pre-statement. At writing, this is unchanged at 18–20bps from current levels.