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BoE Holds 7-2 but Tees Up 'Live' August Meeting

- **The BoE held at 5.25%, as expected, in an unchanged 7–2 hold-cut split, but with officials divided in three camps: cut, 'finely balanced' hold, and hold.**
- **Division at the BoE that points to 'cut' votes growing and the bank highlighting it will take stock at its August forecast round reinforce our expectation for a cut at the August decision. Another round of inflation and jobs/wages data will make or break this.**
- **Markets also moved from a one-in-three to about a three-in-five chance of a cut at the next decision.**

The BoE held its policy rate steady at 5.25% today, as widely expected by economists (including us) and fully priced in by markets, with an unchanged vote breakdown from May decision's 7–2 split—with Dhingra and Ramsden again favouring a cut (a minority expected 8–1). There are two clear dovish elements in today's communications (see below) that mean we leave our call for an August rate cut unchanged, though as always inflation/wages beats would delay the first move and the totality of cuts this year (we project 100bps, with risks slightly tilted towards less).

The recent run of official wages and services inflation beats (appropriately reflected throughout the statement) had fully primed economists and traders for a rate hold today, but the more dovish-than-expected tone of the statement prompted a solid rally in UK rates and broad losses in the GBP as today's decision has teed up the August meeting as 'live'.

At writing, when compared to pre-decision levels and right before the 8.30ET US data run, UK 2yr yields are down about 4/5bps to 4.15%, the GBP is down about 0.2% vs the USD (a bit less vs the EUR) at 1.2685, and markets are pricing in almost a full two BoE cuts by year-end at 48bps (an additional 5bps). Markets have about 14bps pencilled in for August (an additional 6/7bps) that looks about fair at a bit above toss-up odds.

Today's dovish decision tone owes to 1) the minutes disclosing that BoE officials are split in three separate camps: cut today, hold but debated cut, or hold and wait, and 2) the inclusion of a key sentence in the statement, that "as part of the August forecast round, members of the Committee will consider all of the information available and how this affects the assessment that the risks from inflation persistence are receding." BoE officials don't seem to barter as much as ECBers around what's included in decision texts, but hesitant BoE voters likely welcomed the August 'nod' in the statement.

Among the three separate camps there's, of course, the doves Dhingra and Ramsden who unsurprisingly kept their vote for a 25bps cut and will continue to be at the dove end of the spectrum for the foreseeable future. Today, however, the BoE's minutes clearly separate the views of the seven 'holds'.

There are those that think the upside surprises to services inflation point to "second-round effects [that] would maintain persistent upward pressure on underlying inflation" and thus need "more evidence of diminishing inflation persistence" before easing. These are Mann, Haskel, and likely Greene—all external members.

There are those that think "the upside news in services price inflation relative to the May Report did not alter significantly the disinflationary trajectory" and for them "the policy decision at this meeting was finely balanced." These members are likely the core internal bloc of the BoE (Ramsden excluded), i.e. Bailey, Broadbent, and one or both of Breeden and Pill. These members judge that factors that drove recent strength in services inflation (regulated and indexed prices, volatile components, and National Living Wage rise in April) "would not push up medium-term inflation", which implies that their stance on the policy/easing outlook is relatively unchanged.

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With that context, it appears that three or four considered a cut vote today (to varying degrees) but opted to wait until August when a new projection round—and another set of data (namely one each of CPI and jobs/wages)—will inform their view on the risks to the medium-term inflation outlook. Chief Economist Pill's view will carry an important weight at the August meeting, with him and Gov Bailey voting in concert and pulling the other internal MPC officials with them. Note that this was DG Broadbent's, who leans dovish, final BoE decision and his replacement at Monetary Policy, Lombardelli, gives a more hawkish impression though will likely vote with the Gov in August.

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