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FLASH REPORT
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BoE: Cautious Pause, but May Cut Still in Play

- **The BoE did not surprise with its unchanged rate decision this morning, but it did with a 'hawkish' 8–1 vote split.**
- **The cautious vote split, statement, and minutes have lowered the odds that the BoE cuts again in May, but we think the weak economic backdrop trumps inflation risks, allowing the BoE to stick to a one-on-one-off cuts cadence.**
- **There is greater uncertainty around the growth outlook amid the threat of US trade policy, with risks remaining to the downside but with a less clear impact on inflation.**
- **Implied cuts pricing was trimmed for the next decision, to 16–17bps from 18bps, while markets are now pricing in slightly less than two full cuts, at 47–48bps.**

The BoE did not surprise with its unchanged rate decision this morning, but it did with a 'hawkish' 8–1 vote split that was in strong contrast to the more 'dovish' or 'neutral' feel at the February and December decisions. Most expected a 7–2 breakdown today. Eight BoE officials voted to keep the bank rate unchanged at 4.50%, with only perennial dove Dhingra voting for a 25bps rate cut. The strange hawk Mann—dove Dhingra collab where both favoured a 50bps cut in February is over, but seemingly so is the more dovish tilt of Ramsden and Taylor who voted with the minority (alongside Dhingra) for a 25bps cut last December.

The vote split today and the cautious statement and meeting minutes have lowered the odds that the BoE opts for a next rate cut at its May meeting (with fresh forecasts), putting a stop (at least temporarily) to its one-on-one-off pace. We think a May cut is still in the cards considering the continued sluggishness of the UK economy, but today's communications would suggest that officials are a bit more concerned about the resilience in wage growth and the possibility of stronger second-round effects of steep increases in regulated energy prices that would perhaps push out the next move to June.

This morning, January data showed a 6.1% y/y increase in private weekly wages (ex. bonus), roughly unchanged from the December print, but well above the 2024 nadir of 4.8% in August. The planned ~9.5% y/y increase in the country's energy price cap in April should bias expected inflation, and thus wages, higher, at least partly offsetting the soft economic backdrop that would ease price pressures. In January, inflation accelerated to 3.0% from 2.5% in December, a touch higher than projected in the February MPR, and the BoE still believes inflation is on track to rise to as high as 3.7% in Q3-25—though they do concede that energy prices have considerably fallen since their latest forecasting exercise.

Vacancy data have plateaued around pre-pandemic levels since last Autumn and, in an interview that followed this morning's decision Gov Bailey highlighted that there are no signs of job cuts in the most recent data—meaning employers have not yet reacted to the incoming April 1st National Insurance and National Living Wage hikes. The statement did point to hiring intentions and indicators have generally weakened in recent months, but 'hard' data paint a different picture than 'soft' data.

There is greater uncertainty around the growth outlook amid the threat of US trade policy, with risks remaining to the downside but with a less clear impact on inflation that would depend on the final tariffs outcome and possible exchange rate adjustments. The BoE may also want to wait for next week's Spring Statement to make any wholesale changes to its economic assessment. Chancellor Reeves is expected to announce large spending cuts, on the heels of last week's £5bn cut to benefit payments centred on disability claims. Spending cuts are unpopular, but tax rises are doubly so—more so at a time when opinion polls show Labour roughly neck and neck with Reform UK (hard right pro-Brexit). 'Austerity light' policy will certainly not help the UK get out of its economic lull, but someone has to steer the ship of UK public finances. The BoE is not out there to help with rate cuts, of course.

As for the market reaction, the GBP is practically unchanged at writing tracking a 0.3% loss on the day that is about half of the EUR's decline as all G10 currencies trade weaker against the USD. FTSE is flat on the day, avoiding the ~1% losses in the SX5E but falling short of 0.5% or so gains in US indices. The gilts curve is certainly underperforming its global peers, with a bear flattening that has 2s 3bps higher while 30s little changed, in contrast to 1bp and 2bps declines in the US, and 2bps and flat in Germany. Market pricing has shifted slightly for the May meeting, implying 16–17bps in cuts from 18bps at yesterday's close (and 20bps last Thursday). Year-end cuts pricing was trimmed by 5/6bps to about 48bps or roughly two cuts.

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