Scotiabank

GLOBAL ECONOMICS

FLASH REPORT

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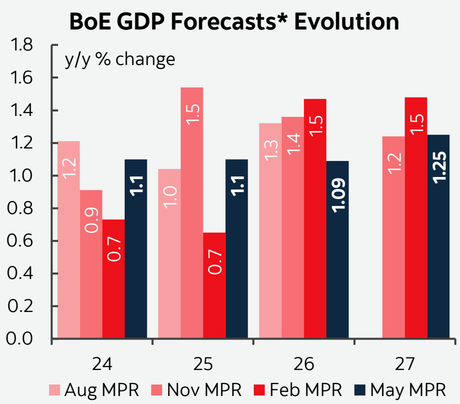
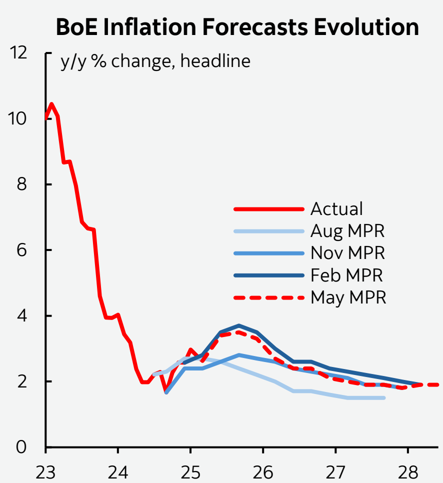
Chart 1



Sources: ONS, BoE, Scotiabank Economics.
* Unrounded data from MPR GDP level forecasts. May MPR is actual for 2024, Aug MPR did not include 2027 growth forecast.

Chart 2



Sources: ONS, BoE, Scotiabank Economics.

BoE: Another “Gradual and Careful” Cut

- **The BoE matched expectations for a 25bps cut today but surprised economists with two officials voting to stand pat today, including BoE Chief Economist Pill.**
- **In another hawkish move, the bank also left its guidance on future decisions unchanged, sticking to “a gradual and careful approach” to further easing.**
- **We expect the BoE to leave its rate unchanged at the June decision, resuming cuts at its August decision as it sticks to a quarterly cadence.**
- **The BoE revised higher and lower, respectively, its 2025 and 2026 GDP growth forecasts, and trimmed its inflation projections over the forecast horizon.**
- **June cut market pricing was slashed from ~15bps last night to ~5bps at the time of writing.**

Today, the BoE lowered its policy rate by 25bps to 4.25% as was expected by Scotiabank Economics, all economists polled by Bloomberg, and fully priced in by markets. The 2–5–2 50bps–25bps-no cut vote split was unexpected, however, as the vast majority of analysts anticipated an 8–1 split or possibly a 7–2 split in favour of a 25bps cut with some officials preferring a 50bps cut.

The bar for the BoE to cut again in June was significantly raised today, as BoE Chief Economist Pill was among the two voters who preferred a rate hold and with the bank’s statement kept its guidance unchanged around “a gradual and careful approach” to further easing.

We continue to expect that the BoE will stick to a quarterly cadence of cuts for the time being and choose to pause at its June decision. Nevertheless, data over the next two weeks on CPI, employment, and GDP may breathe some life back into June cut odds, with pricing for the meeting slashed to only about 5bps (20% chance) from roughly 15bps (60% chance) at yesterday’s close.

In its MPR, the BoE lifted its 2025 growth forecast to 1% on the back of recent data (from 0.75% in February) but cut its 2026 projection to 1.25% (from 1.5%) on some impact of a global slowdown from the U.S.’s trade war (chart 1); the trade ‘deal’ between the U.S. and the U.K to be announced later today could bias this forecast a touch higher.

Developments in energy prices since the February MPR, with Brent oil down ~20% and UK natural gas down ~35% over the period, translated into decent reductions to the inflation outlook path. Inflation (chart 2) is now seen closing 2025 at 3.25% (from 3.5% previously) and closing 2026 at 2% (from 2.5% previously). Inflation converges sustainably around the 2% target starting in Q4-26 and only marginally sits below 2% starting in Q2-27—generally reflecting that market-implied rates pricing used for these projections would be an adequate path to reach the prices goal.

Meanwhile, the external environment remains challenging for inflation via tariff risks, yet losses in commodity prices act as a strong offset. The Committee also highlighted that the risks to the forecast are “somewhat to the downside”. Were a greater slowdown to materialise, back-to-back cuts could be on the table in the final third of the year.

Gilts sharply reacted to the hawkish vote split with about a 10bps spike in 2y yields, although the GBP only marginally benefitted from today’s decision—yet is the best performing G10 currency on the day, up 0.3%.