

Contributors

Juan Manuel Herrera, Senior Economist
Scotiabank Economics
+52.55.2299.6675 (Mexico)
juanmanuel.herrera@scotiabank.com

Chart 1

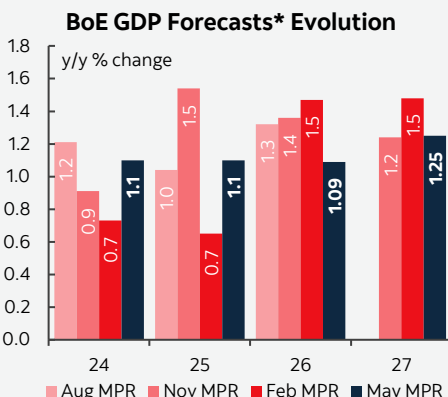
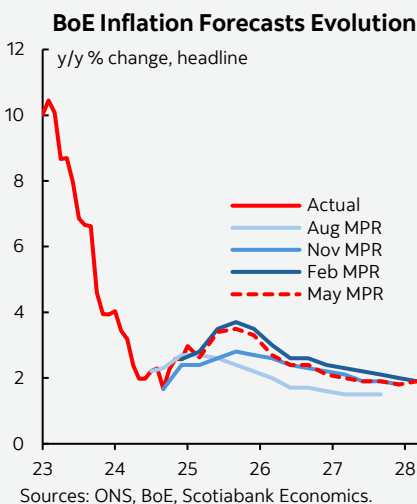


Chart 2



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%.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.