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FLASH REPORT
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Bank of England: Slightly Dovish Hold, Sticking to Quarterly Script

- **The Bank of England (BoE) left its policy rate unchanged at 4.25% as was universally expected yet surprised with a slightly more dovish 6–3 vote split.**
- **The minutes to the meeting highlighted that officials "expected significant slowing" in wage growth, with "clearer evidence" that labour markets slack has opened while pointing to low job openings and weak payrolls numbers.**
- **The BoE left its key policy guidance unchanged, however, saying that "a gradual and careful approach" to easing remains appropriate.**
- **The bank remains on a quarterly path of rate cuts with the next one coming at its August decision alongside updated projections. Middle East developments and the risks that these pose for U.K. energy bills are the main item to monitor at present.**

The Bank of England (BoE) left its policy rate unchanged at 4.25% as was universally expected yet surprised with a slightly more dovish vote split, while the bank's minutes reflected a confident tone in regard to pay growth. The BoE's Monetary Policy Committee (MPC) voted 6–3 in favour of today's rate hold, against the expectations of most economists that anticipated a 7–2 split. Dep Gov Ramsden joined the two external MPC doves, Dhingra and Taylor, in calling for a 25bps cut today.

The BoE left its key policy guidance unchanged, however, saying that "a gradual and careful approach" to easing remains appropriate alongside their assessment that there remain two-sided risks to inflation. The BoE pointed to rising energy prices due to Middle East conflicts which at writing have contributed to a 25% rise in Brent oil prices for the month while also lifting U.K. wholesale gas prices by nearly 20% over the period. The evolution of the conflict and the impact that it could have on wholesale prices and thus regulated energy prices will be key in the BoE's inflation assessment. That said, the BoE seems to be paying greater attention to the growth and employment backdrop as they set aside energy-driven price pressures.

The minutes to the bank's meeting which accompany the statement highlighted that officials "expected significant slowing" in wage growth over the remainder of 2025, adding to their belief that "there was clearer evidence" that slack in labour markets has opened over time, pointing to low job openings and weak payrolls numbers. Data derived from payroll records released last week showed that employment in the U.K. contracted by 0.9% y/y in May, with relatively broad-based declines at the industry level with the country averaging ~65k job losses per month over the past three months—its worst performance since the pandemic, and compared to ~30k job gains in the Mar–May 2024 period.

The unchanged guidance around the pace of easing signals that the BoE is highly unlikely to consider back-to-back cuts for the time being. This is in line with our forecasts that see the BoE delivering rate cuts at a quarterly pace—with the next one due at the August meeting alongside new BoE projections. Markets are of this view, as well, with 50bps in anticipated easing by year-end to close 2025 at 3.75%. The four additional cuts over 2026 would leave the bank's rate at 2.75%, around where it will likely conclude its easing cycle.

The market reaction to today's decision was relatively muted, with only about a 2/3bps decline in 2yr yields upon the release of the statement, a decline which has since been erased and then some. Dep Gov for Monetary Policy Lombardelli spoke to reporters after the decision, striking a more hawkish tone than that implied by the decision, highlighting sticky services inflation and a need to act cautiously in setting policy. This, alongside a general cheapening of debt markets (particularly in the long-end), has UK 2s yields now

3bps higher on the day and 10s up 5bps compared to flat and 3bps higher 2s and 10s in Germany, respectively. Year-end expected pricing for BoE cuts is little changed on the day.

The GBP is a slight outperformer on the session thanks to holding unchanged on the day in contrast to broad USD gains against the major currencies—where the NOK is a key laggard after the Norges' surprise rate cut. The FTSE 100 is also 'only' losing about 0.5%, half of Euro Stoxx cash losses and U.S. equity futures, though the outperformance of U.K. equities may merely owe to gains in BP and Shell, benefiting from a 2.5% rise in Brent oil prices today.

The release of U.K. retail sales figures tomorrow and Monday's PMIs are the main items on the calendar to follow in tweaking expectations for the BoE, though we'll have to wait for the release of May GDP on July 11th and June CPI on the 16th to materially alter expectations. In any case, an August cut is highly likely with only a massive increase in oil prices possibly shifting the BoE off its quarterly cadence of cuts.