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ECB and BoE Stick to Monitoring Stance, but Hikes Await

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- The BoE somewhat surprised markets with a less hawkish 8–1 vote split where only Chief Economist Pill voted for a hike today, reflecting the broader Committee’s concern about the weak state of the U.K. economy or a preference to monitor how external risks evolve.
- ECB officials voted unanimously in favour of a rate hold, according to President Lagarde, but an “ECB sources” story published after her press conference revealed that ECB officials see a June hike if energy prices don’t ease before then.
- We expect that both the ECB and the BoE will hike by 25bps at their June 11th and 17th rate announcements, respectively, with another quarter-point rate increase due at one of the July or September decisions.

The European Central Bank (ECB) and the Bank of England (BoE) chose to leave their respective policy rates unchanged at 2.00% and 3.75%, as broadly expected, without showing a significantly clearer disposition towards hiking at one of their upcoming meetings when compared to their March rate announcements. As reflected in last month’s ECB’s forecast update and this morning’s BoE Monetary Policy Report (MPR) projections, a significant, and worrying, inflationary impulse has emerged due to the conflict in the Middle East.

While the Eurozone and U.K. economies are bound to take a hit from the conflict, the mostly untameable economic shock from higher energy and food prices, or even shortages, will likely be outsized by inflationary concerns against which central bank officials could act. However, the BoE somewhat surprised markets with a less hawkish 8–1 vote split where only Chief Economist Pill voted for a hike today, reflecting the broader Committee’s concern about the weak state of the U.K. economy—likely to worsen—or a preference to monitor how external risks evolve. ECB officials voted unanimously in favour of a rate hold, according to President Lagarde.

We expect that the ECB and the BoE will hike by 25bps at their June 11th and 17th rate announcements, respectively, with another quarter-point rate increase due at one of the July or September decisions. While we currently do not project additional hikes, the odds of these are rising with each passing day that flows through the Strait of Hormuz are suspended. Traders are pricing in a cumulative 75bps in ECB and 67bps BoE hikes by year-end, versus 84bps and 78bps, in that order, reflected in markets at yesterday’s close.

The central banks will now closely monitor the evolution of the conflict in the Middle East likely as much (if not more) as they’ll watch incoming data over the next few weeks. Between now and the June meetings, the BoE will have fresh April and May CPI and payrolls, and 1Q and April GDP data at hand (and a good idea of where Ofgem may set the Jul–Oct energy price cap, to be announced on May 27th), while the ECB already got April HICP and 1Q figures this morning so it will only have the May inflation reading to look forward to alongside wages metrics and survey data.

BOE OUTLINES ECONOMIC SCENARIOS, ALL SHOWING STEEP INFLATION

The BoE surprised markets with a less hawkish decision than anticipated with the Monetary Policy Committee voting 8–1 where Chief Economist Pill was the only member advocating for a rate hike (against expectations that another one or two would join him). At writing, U.K. 2s and 10s are 10bps and 5bps lower on the day (roughly double the move in USTs) while the GBP is taking a closer cue from the USD-negative mood to sit 0.8% stronger.

April 30, 2026

While the voting split may be perceived as a high bar for rate hikes, the BoE's updated projections showing much higher inflation forecasts for the quarters ahead combined with the unchanged guidance that the BoE "stands ready to act as necessary to ensure that CPI inflation remains on track to meet the 2% target in the medium term," back expectations for policy tightening. We think a 25bps hike will come at the June announcement, but markets are not as convinced, showing ~15bps priced in (or about a 60% chance) compared to ~20bps (80% chance) just prior to the announcement.

The BoE seemingly had trouble coming to an agreement on what the baseline view should be, instead opting to present three scenarios, A, B, and C, that reflect different trajectories for energy prices—futures curves with no second-round effects, futures curves for six months and then halfway between unchanged prices and the futures curve while also incorporating small second-round effects, and a sharp rise in energy prices that remain elevated for a long period and result in higher and longer-lasting second round effects. All these scenarios also incorporate BoE market-implied pricing as of the 15 working days to April 22nd, equivalent to showing about two BoE hikes to a 4.25% peak in early-2027 before slowly moving toward to 4%.

The evolution of inflation in scenarios A and B is fairly similar in the medium term, seen at 3.1% and 3.3% in Q2-26 and Q3-26 and closing the year at peaks of 3.6% and 3.7%, respectively, before easing to 1.7% and 2.3% at end-2027, with this clearer divergence reflecting the different assumed path for energy prices. These two scenarios, even if the BoE saw A as the most likely, are a massive shift in the bank's expectations for inflation at its February MPR—when it saw inflation around 2% from Q2-26 and holding there throughout the forecast horizon into 2029. Scenario C is certainly a tail-risk scenario, with inflation peaking at 6.2% in Q1-27, still closing that year at 3.5%. BoE Governor Bailey indicated in the meeting minutes that he sees B as the likelier scenario, albeit with lessened second-round effects.

In a bubble, these inflation forecasts would be clearly justify tighter policy, but the BoE's dilemma owes to the U.K.'s economy weakness, with scenarios A and B seeing GDP growth averaging 0.8% in 2026, down from an already soft 0.9% projection as of the February MPR. But, while the latter saw growth recovering to 1.5% in 2027, the A and B scenarios put growth at a mere 1%. Unemployment rate forecasts also show a worsening trend when compared to February. Although the starting point is lower, with 4.9% seen in 1Q-26 (in line with actual data for February) in all scenarios compared to the 5.2% projected in the February MPR, scenarios A and B see the jobless rate rising steadily to the mid-5s in early/mid-2027, with end-2027 projections of 5.5% thus 0.3ppts higher than the 5.25 forecast in the February MPR.

ECB GIVES LITTLE AWAY, BUT HIKES LOOK LIKELIER

The ECB kept its deposit facility rate a 2.00%, with a balanced statement noting that upside inflation risks and downside growth risks have both intensified as a result of developments in the Middle East. The statement gave markets little to go on aside from its measured view, with the ECB (as expected) sticking to a data-dependent and risks-based approach and not pre-committing to a particular rate path.

The market waited for Pres Lagarde to provide greater details on the decision and the preceding meeting, but the bank's chief was perhaps more reserved than usual. She noted that the bank discussed various options, including a hike, although the board voted unanimously for a rate hold. She also said that the Eurozone economy is "certainly" moving away from the baseline presented in the March forecast update—i.e., it is moving towards to the adverse scenario with higher inflation—but she did not elaborate on which scenario the Eurozone is closer to and also stated that the bank is not currently seeing second-round effects on inflation.

While she (cryptically) said that she knows where the ECB is heading on interest rates, she also said that the next six weeks will be crucial to make an informed decision, when the ECB publishes updated macroeconomic projections. A short while after the conclusion of Lagarde's press conference, a classic "ECB sources" report noted that a June rate hike is very likely and that officials were in broad agreement about the need to move.

The decision had a limited impact on Eurozone debt and the currency, with German 2s marginally adding to their yield decline on the day (now totalling near 10bps), and the EUR holding roughly unchanged vs pre-decision or reflecting broad dollar moves. As for ECB cut expectations, the market is still positioned for the ECB to hike three times this year, a massive shift from the one-in-two chance of a 25bps rate cut by year-end that the market envisaged prior to the start of the conflict.

This morning, Eurostat released April HICP and 1Q26 GDP figures for the euro bloc, with both sets of releases broadly meeting expectations. In the current month, headline prices in the Eurozone rose by 3% year-over-year (YoY), up from 2.6% in March, while core inflation came in at 2.2% YoY (down a tick from 2.3%), with both of these coming in exactly in line with economists' forecasts. Meanwhile, GDP expanded by 0.1% quarter-over-quarter (vs a 0.2% median forecast), slowing from 0.2% in 4Q25, with no details provided by Eurostat in this preliminary release.

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