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GLOBAL ECONOMICS

FLASH REPORT
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BoE Holds, Shows Limited Inflation Worries

- **The Bank of England (BoE) left its policy rate unchanged at 3.75% this morning, as universally expected. The 6–3 hold-hike vote split was a bit more hawkish than expectations for a 7–2 breakdown.**
- **Despite the vote split, today's announcement took on a slightly more neutral tone than anticipated. The BoE highlighted that "there have continued to be clear signs of underlying disinflation in recent data" and that there "is little evidence so far to suggest" that second-round effects from higher energy prices are materialising.**
- **The BoE returned to presenting a central scenario that sees inflation closing 2026 at 3.2%, then falling to 2.1% at end-2027, with GDP growing by a modest 1.1% each year.**
- **A trove of data awaits between now and the September decision. The BoE will get Q2 and July GDP, July and August CPI, July and August payrolls, and August PMIs. Markets see about a one-in-three chance of a hike in September.**
- **At writing, markets are pricing in a total of ~32bps in BoE hikes by year-end, down from ~42bps at yesterday's local market close. We forecast unchanged rates over the forecast horizon to 2027.**

The Bank of England (BoE) left its policy rate unchanged at 3.75% this morning, as universally expected by economists polled by Bloomberg and only fractional rate hike pricing in markets. The 6–3 hold-hike vote split was a bit more hawkish than expectations for a 7–2 breakdown, as Chief Economist Pill and external members Greene and Mann took the hawkish option (the first two also voted for a hike in June).

Despite the vote split, today's announcement took on a slightly more neutral tone than anticipated across the combination of the BoE's statement, the minutes to the meeting and the opinions expressed by the Monetary Policy Committee (MPC), updated forecasts and views in the Monetary Policy Report (MPR), and the post-decision press conference with Gov Bailey. At writing, markets are pricing in a total of ~32bps in BoE hikes by year-end, down from ~42bps at yesterday's local market close.

The BoE highlighted that "there have continued to be clear signs of underlying disinflation in recent data" and that there "is little evidence so far to suggest" that second-round effects from higher energy prices are materialising. In relation to the release of updated forecasts in the MPR, it added that "the risks to the inflation outlook are tilted to the upside relative to the central projection in the July MPR" (partly due to the assumptions window for energy prices not reflecting the most recent moves). It kept guidance unchanged, as "the Committee stands ready to act as necessary" to ensure the convergence of inflation to the 2% target.

In our July forecast update, we removed the two 25bps hikes that we projected the BoE would roll out in 2026. This was on account of a (then) normalization of energy prices and to align with the BoE's messaging that suggested that economic weakness offset inflationary risks. The latest jump in energy prices (oil and gas) and a return of elevated uncertainty around when the war and its associated disruptions may conclude could now point again to the possibility of tighter policy rates. The current environment of Brent crude oil around $90/bbl and U.K. natural gas around £150p/therm lasting through the next five weeks until the September 17th decision could pressure the BoE into a 25bps hike then.

However, today's messaging of no evidence of second-round effects and seeing a clear slowing of underlying inflation point to the BoE being content with an unchanged stance. Simply put, it could be too quick of a shift from its current stance to expect them to hike in

September. On the flip side, a trove of data awaits between now and that decision that could materially shift their perception (on top of whatever happens in energy markets). The BoE will get Q2 and July GDP, July and August CPI, July and August payrolls, and August PMIs, among other data releases as well as the Ofgem's (energy regulator) October–December energy bills price cap announcement in late-August. There is also the matter of fiscal policy announcements under newly-appointed Prime Minister Andy Burnham that could alter the inflation and growth outlook. So, while the current stance is suggestive of rate holds for the balance of the year before the BoE possibly considers rate cuts next year, hikes cannot be ruled out.

Among the six-strong majority, their views (published in the minutes accompanying the decision) do not suggest there will be another two that would flip in favour of voting for a hike at the next meeting. Gov Bailey noted that "the process of underlying disinflation that was intact prior to the conflict remains in train," providing "some tentative evidence that inherited inflation persistence may be weaker than had been presumed." He made no mention of possible tightening, contrary to the June minutes when he said he "would respond promptly" to signs of "stronger possible second-round effects." In an interview to Bloomberg following the decision, he noted that upside rate risks are built into "sort of sensible" market pricing. Dep Gov Breeden had a similar risk assessment and also dropped her act-if-needed comment from the June gathering—one that Dep Gov Lombardelli maintained (she would be a possible hike vote). Dep Gov Ramsden pointed to conflicting inflationary forces, those from abroad to the upside and those at home to the downside. Were upside risks to materialize, he believes a hike may be warranted, though were they to subside, he would consider resuming the cutting cycle (he leans more towards cuts). External member Taylor said "the more likely outcomes sit between the baseline and milder [inflation] scenario," noting that on-hold rates versus a lower "pre-conflict implied path gives insurance for now, before resuming cuts when and if geopolitical uncertainty clears." Finally, external member Dhingra stuck to her usual dovishness, seeing "value in waiting."

The BoE returned to presenting a central forecast, after being forced by uncertainty and volatility in energy markets into showing three alternative scenarios in the April MPR, though today it accompanied its baseline with two alternative scenarios: milder and adverse. The milder scenario sees oil and gas prices averaging ~5–10% lower than the baseline, while the adverse scenario takes oil prices 25–25% higher and gas prices 40–60% higher. In its central scenario, the BoE projects that inflation will close 2026 at 3.2% y/y, falling to 2.1% y/y at end-2027, compared to the more 'benign' scenario A from the April MPR which had Q4-26 at 3.6% but Q4-27 at 1.7%. The BoE's milder alternative sees inflation only a touch lower at end-2026 at 3% but falling all the way to 1.8% in Q4-27, and even reaching as low as 1.5% in early/mid-2028, while the adverse scenario envisions inflation at 3.8% in Q4-26 and 3.4% in Q4-27. Note that the BoE took average prices for the 15 working days to July 20th, 2026 for its assumptions, which means these are slightly biased lower compared to current prices on screens. The BoE projects GDP growth of 1.1% in each of 2026 and 2027 in its central scenario (with minimal, no greater than 0.1ppts deviations in its alternative scenarios), compared to 0.8% in 2026 and 1.0% in 2027 in scenarios A and B, and 0.7% in 2026 and 0.8% in 2027 in scenario C in the April MPR.