

BoE: Softens Stance in Surprise Split Vote

- The MPC kept the Bank Rate on hold at 0.75%, but surprised with two dissenting votes in favour of a 25 bps cut.
- Guidance remained bi-directional, but with a softer economic outlook and risks now characterized as skewed to the downside by the Governor.
- We continue to forecast that the BoE will remain on hold over our forecast horizon as US-China trade risks appear to be improving, global economic indicators seem to be hitting an inflection point, and Brexit uncertainties are clarifying.

DISSENTING DOVES

As expected, the Bank of England's (BoE) Monetary Policy Committee (MPC) held its benchmark Bank Rate unchanged at 0.75%, keeping the BoE's policy rate well below that of the Fed (chart 1). What was unexpected, however, was the split 7–2 vote behind the decision, with MPC members Michael Saunders and Jonathan Haskel opting for a 25 bps cut, the first MPC votes for lower policy rates since 2016 and the first MPC decision that was not unanimous since June 2018. Saunders and Haskel noted subdued core inflation, a weaker global economic environment, a softening in labour markets, and ongoing Brexit uncertainties as the basis for their dovish turn.

The dissent by Saunders was particularly notable since about 18 months ago he had been an outlying vote for a rate hike. That said, his more recent comments had marked him as an emerging dove, whereas Haskel's vote for a rate cut came as a surprise.

MAJORITY'S GUIDANCE AND RISKS REMAIN BI-DIRECTIONAL

The majority of the MPC voted to hold the Bank Rate unchanged, noting that risks remain bi-directional with guidance now shifted a bit more dovishly than before as Gov. Carney noted risks are skewed to the downside. On the downside, MPC members in the majority reiterated their past point that, "If global growth fails to stabilize, or if Brexit uncertainty remains entrenched, monetary policy may need to reinforce the expected recovery." On the upside, the MPC's majority also again noted that its view remains unchanged that if major risks don't come to fruition, then limited and gradually-paced rate hikes may be needed. Conviction one way or the other doesn't look particularly strong.

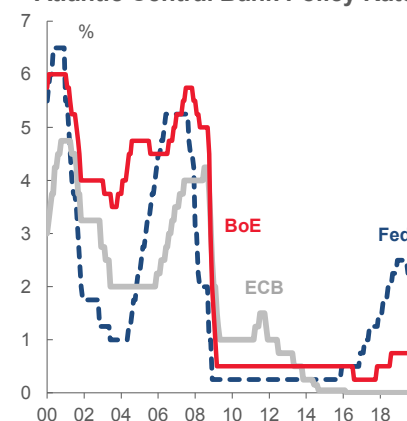
The forward-looking stance for the majority of MPC members appears to remain broadly balanced, but with a greater awareness of negative possibilities. Gov. Carney echoed this two-way view in the press conference, additionally noting that Brexit uncertainties are weighing particularly hard on business investment. Even though reduced Brexit uncertainty and stronger world economic developments feature in the BoE's forecast, Gov. Carney underscored that neither is assured and that the global economy risks getting stuck in a slow-growth rut.

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com
[@BrettEHouse](https://twitter.com/BrettEHouse)

Chart 1

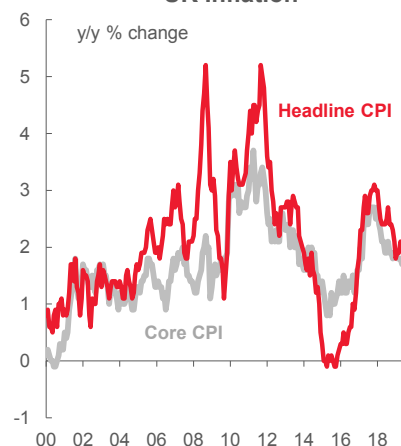
Atlantic Central Bank Policy Rates



Sources: Scotiabank Economics, Bank of England, Federal Reserve Board, European Central Bank.

Chart 2

UK Inflation



Sources: Scotiabank Economics, ONS.

The somewhat more dovish tenor of today's BoE communications is interesting since, on balance, risks have clarified somewhat since September's rate decision. Prime Minister Boris Johnson has agreed an exit deal with the European Union (EU) by January 31, 2020 with a national election on December 12, 2019 serving as an informal referendum on the draft pact. The BoE's forecasts are now based on an assumption that Johnson's deal paves the way for an "orderly transition to a deep free trade agreement" between the UK and EU that would mirror the existing EU-Canada Comprehensive and Economic Trade Agreement (CETA)—rather than the BoE's prior set of messier forecast possibilities.

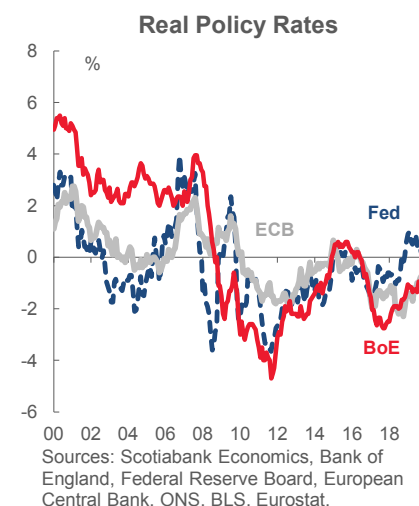
The global economy may also be turning a corner just as the MPC sounds a more dovish note. We are likely beginning to see the bottom in manufacturing and services indicators. Similarly, the emerging preliminary phase 1 US-China trade deal is set to lift sentiment and could underpin stronger global demand. While the deal may not unwind damage already done, and is likely to be more cosmetic than substantive, a deal would at least curb further protectionist escalation from the White House and reduce uncertainty going forward.

Despite these developments, the BoE's rechristened *Inflation Report*—now the *Monetary Policy Report*—brought down its growth and inflation forecasts (principally owing to lower energy prices), and raised projected unemployment rates even with a clearer Brexit outlook. Inflation, which is a little below the 2% target (chart 2), would be expected to remain sub-target until late-2021.

WE SEE THE BoE REMAINING ON HOLD

Although the split decision and forecast revisions add a somewhat more dovish tint to the MPC's views, we continue to forecast that the BoE will remain on hold over our forecast horizon. In contrast, markets are pricing at least one cut, and today's split vote brought slightly forward the expected timing of this cut. Although this pricing anticipates that the BoE will join the vast majority of major central banks that have made their monetary policies more accommodative over the course of 2019, two dissenters against a large majority that still sees two-ways risks don't incline us to change our forecast. Monetary policy is already accommodative (chart 3). Sterling markets appeared to agree: although GBP fell on the announcement of the split vote, it remained well within recent ranges.

Chart 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, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., 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 authorised 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 authorised 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., and Scotia 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.