PREVIEW: BoE policy announcement due 5th August 2021 at 12:00BST/07:00EDT. Press conference due at 13:00BST/08:00EDT

- **BoE rate decision, minutes & MPR due 5th August 2021 at 12:00BST/07:00EDT. Press conference due at 13:00BST/08:00EDT**
- **Base Rate and APF set to be held at 0.1% and GBP 895bln respectively**
- **Possibility of a 6-2 vote on the APF decision amid hawkish commentary from Saunders and Ramsden**
- **BoE could unveil new guidance on future tightening and UK banking sector's preparedness for NIRP**

OVERVIEW: The MPC is expected to stand pat on rates at 0.1% via a unanimous decision and maintain its APF at GBP 895bln. The latter decision could be subject to dissent from Saunders and Ramsden given recent comments. The MPC's decision will take place against the backdrop of the UK having carried out the final stage of its reopening plan following the delay in June. However, concerns around the Delta variant and subsequent "pingdemic" will likely keep consensus cautious on the MPC. On the policy front, details could be unveiled on the Bank's adjusted forward guidance for future tightening, whilst the UK's banking sector's preparedness for the possibility of NIRP in future crises is expected to be confirmed. Note, such a move would be indicative of NIRP being a future policy option, not an imminent policy change. At the accompanying MPR, UBS expects the Q2 inflation outturn to prompt an upgrade to the 2021 projection to in excess of 3% with the medium-term forecast to remain around the 2% target. On the growth front, the 2021 GDP forecast of 7.25% is set to be revised higher whilst 2022 and 2023 projections are set to remain at 5.75% and 1.25% respectively.

PRIOR MEETING: As expected, the BoE stood pat on rates at 0.1% via a unanimous decision and maintained the APF at GBP 895bln. The latter decision was subject to dissent from outgoing Chief Economist Haldane who once again voted in favour of a GBP 50bln reduction in the remit. The overall message from the Bank was an upbeat one with officials noting that "Bank staff have revised up their expectations for the level of UK GDP in 2021 Q2 by around 1.5% since the May Report, as restrictions on economic activity have eased". Furthermore, policymakers stated that as demand has recovered, the number of furloughed jobs has declined faster than expected. That said, uncertainty remains over the fragility of the UK labour market as the furlough scheme expires in September. On inflation, the MPC assumes CPI is expected to pick up further above the target, owing primarily to developments in energy and other commodity prices, and is likely to exceed 3% for a temporary period. Thereafter, inflation is expected to return to around 2% in the medium term. From a policy perspective, despite some of the positivity stemming from the UK's reopening efforts, the conclusion of the MPC was that policy should both lean strongly against downside risks to the outlook and ensure that the recovery is not undermined by a premature tightening in monetary conditions.

RECENT DATA: Headline Y/Y **CPI** rose to 2.5% in July from 2.1% and core to 2.3% from 2.0% as 2020 base effects continued to influence price pressures. **GDP** for May rose just 0.8% as the strength in consumer demand amid reopening efforts was offset by softness in manufacturing, construction and retail. Timelier **PMI** data for July remained firmly in positive territory (composite 57.7 vs. prev. 62.2), however, staged a pullback from the levels seen in June as increasing COVID infection numbers in the UK hampered consumer demand, whilst supply chain disruptions and staff shortages clouded the outlook of survey respondents. On COVID, cases in the UK hit a recent peak of 54.1k on July 17th (two days before the "Freedom Day" reopening), however, cases have since trended lower with the 7-day moving average currently at 26.3K. In the **labour market**, the unemployment rate rose to 4.8% from 4.7% in the three months to May and therefore remains 0.9pp above pre-pandemic levels with the UK's furlough scheme set to draw to a close at the end of September.

RATES: The Base Rate is expected to be held at 0.1% via a unanimous decision. As a guide, markets currently price in a 15bps hike by August 2022. Analysts at RBC tout the likelihood of a 15bps hike first to take the Base Rate to 0.25% before switching to traditional 25bps increments thereafter. Note, RBC holds a slightly more hawkish than consensus view on the BoE's rate path and look for a 15bps hike in May 2022 and a 25bps increase in November 2022. In terms of other house views, UBS also look for a 15bps increase in May 2022 but doesn't expect the follow-up 25bps hike to occur until February 2023. On the tightening front, the upcoming meeting could see the MPC unveil the findings of its tightening guidance review; note, there is currently no indication of what exact meeting the review will be released at. As it stands, guidance states that the Bank will not begin shrinking its balance sheet until the base rate is around 1.5%. UBS suggests that rates will likely remain the Bank's marginal tool for tightening, however, the 1.5% threshold will likely be lowered. UBS also notes that given the maturity profile of the BoE's Gilt holdings, it is unlikely that any significant tightening of its balance sheet will take place before mid-2023. Finally, the MPC is expected to announce that the UK banking system has made the necessary adjustments to allow the use of a negative Base Rate in the future, should it be warranted; note, such an announcement would not be indicative that the BoE is to venture into NIRP.

RHETORIC: Commentary from MPC officials has presented a more mixed range of views than seen in prior months. At the more hawkish end of the spectrum, **external member Saunders** noted that “it may become appropriate fairly soon to withdraw some of the current monetary stimulus in order to return inflation to the 2% target on a sustained basis”. **Deputy Governor Broadbent** stated he is not quite there with Saunders on the duration of goods price inflation, but acknowledged that the extent of the increase in inflation “is a bit surprising”. **Deputy Governor Ramsden** remarked that he can envisage the conditions for considering tightening being met somewhat sooner than he had previously expected. On a more dovish footing, **external member Vlieghe** and his replacement Mann (will join MPC on 1st September) continue to view price developments as “transitory”. Vlieghe went on to state that he thinks it will remain appropriate to keep the current monetary stimulus in place for several quarters at least, and probably longer. **Governor Bailey** laid out in detail (July 1st) why he thinks increases in inflation will prove to be temporary whilst noting that it is important not to over-react to temporarily strong growth and inflation and to ensure that the recovery is not undermined by a premature tightening in monetary conditions; a viewpoint that was later echoed by **external member Haskel**. **Deputy Governor Cunliffe** attributed the firm June inflation print to the impact of the economic reopening.

QE: The MPC is expected to maintain its APF at GBP 895bln (GBP 875bln Gilts and GBP 20bln corporates). The APF decision was previously subject to dissent from Chief Economist Haldane who opted for a GBP 50bln reduction in the remit. Haldane has since left the Bank (leaving just eight members on the MPC), however, given recent hawkish remarks from external member Saunders, Haldane’s dissent could be replaced at the upcoming meeting. SocGen and RBC subscribe to this viewpoint and also believe that Ramsden could opt for a reduction in the APF, resulting in a 6-2 vote split for the Gilt component of the programme. The French Bank also noted that the current weekly GBP 3.44bln pace of purchases means the GBP 895bln target will be met a month ahead of the current year-end target date and as such, a modest reduction in the weekly amount will be required at some stage to stretch purchases out to the targeted timeframe.

FORECASTS: In the accompanying MPR, UBS expects the Q2 inflation outturn (2.1% Y/Y vs. MPC forecast of 1.7%) to prompt an upgrade to the 2021 projection to in excess of 3% with the medium-term forecast to remain around the 2% target. On the growth front, the 2021 GDP forecast of 7.25% is set to be revised higher whilst 2022 and 2023 projections are set to remain at 5.75% and 1.25% respectively.