PREVIEW: BoE rate decision, minutes & MPR due Thursday 3rd February 2022

- **BoE rate decision, minutes & MPR due 3rd February 2022 at 12:00GMT/07:00EST, press conference at 12:30GMT/07:30EST**
- **Expectations are for the BoE to lift the Bank Rate by 25bps to 0.5% following the 15bps hike in December**
- **Hike will be justified following further advances in headline CPI and recent labour market data**

OVERVIEW: After hiking in December and following further upside in Y/Y CPI as well as healthy post-furlough labour market metrics, the MPC is expected to lift the Bank Rate to 0.5% from 0.25% via a 9-0 vote. Policymakers have done little to stand in the way of current market pricing which assigns a 100% chance of a hike with the Omicron variant proving to be milder than some had feared at the time of the prior meeting. A hike to 0.5% will mark the point at which the Bank will halt reinvestments under the APF. Elsewhere, focus for the release will fall on any pushback on the aggressive market pricing which looks for five hikes in 2022 and the accompanying MPR which will contain the latest round of economic projections.

PRIOR MEETING: After holding fire on a fully priced in rate hike in November, policymakers voted to lift the Bank Rate by 15bps to 0.25% via an 8-1 decision with external member Tenreyro the sole dissenter. The consensus on the MPC was that there was a strong case for tightening monetary policy, given the strength of current underlying inflationary pressures and in order to maintain price stability in the medium term. Furthermore, the MPC now expects inflation to peak at 6% in April. With regards to Omicron, the MPC noted that its impact on medium-term inflationary pressures was unclear at the time. Bank staff revised down their expectations for the level of UK GDP in 2021 Q4 by around 0.5% since the November Report, leaving GDP around 1.5% below its pre-Covid level.

RECENT DATA: Y/Y CPI rose to 5.4% from 5.1% and therefore printed 0.9pp above the projection laid out in the MPC's November MPR. Elsewhere, the core metric ticked higher to 4.2% from 4.1%. As a reminder, the MPC expects inflation to peak at 6% in April. In the labour market, the unemployment rate in the 3-months to November fell to 4.1% from 4.2%, Y/Y average earnings growth is at 4.2% and the UK appears to have avoided a wave of mass redundancies following the winding down of the furlough scheme with prelim December payroll numbers rising 184k M/M. November's slightly stale GDP release showed a 0.9% expansion ahead of the emergence of the Omicron variant. For the December reading, Pantheon Macroeconomics anticipates a 0.6% M/M contraction with a further 0.3% decline expected in January. December PMIs (final readings to be released on the day of the decision) saw the Composite metric slip to 53.2 from 57.6 amid a notable decline in the Services reading to 53.2 from 58.5 as Omicron hampered activity. December's retail sales report saw a -3.7% M/M print with ING highlighting the emergence of the Omicron variant and pullback from an "unusually strong" Black Friday.

RHETORIC: Since the prior meeting, rhetoric from the MPC has been relatively light in comparison to the build-up to the November and December meetings. Governor Bailey on 19th Jan noted that some aspects of current inflation ought to be transitory, such as energy and supply chains. The Governor also cautioned that there is some concern about the second-round effect from inflation on wages, adding that inflationary pressures in the labour market acted as an influence on the December rate hike. Elsewhere, external member Mann suggested that "what monetary policy needs to do now is to temper the 2022 expectations for wage and price increases to prevent them from being embedded in the decision-making of firms and consumers."

RATES: Expectations are for the BoE to lift the Bank Rate by 25bps to 0.50% following the 15bps hike in December. 29/45 surveyed (between Jan 17th-20th) analysts expect a 25bps hike with the remaining 16 looking for unchanged. The vote split is expected at 9-0 with Tenreyro set to join the hike camp after abstaining in December. Markets assign a 100% chance to such a move. It is worth noting the above-mentioned lack of interjections by the MPC since the prior meeting. Some of this will be a by-product of the festive break. However, it should also be viewed as a sign that policymakers are not looking to dissuade markets from their expectations for the upcoming meeting after noisy messaging ahead of the prior two meetings. As such, recent economic data including the December 5.4% Y/Y CPI print and solid post-furlough employment report has acted as a primary source of guidance for markets. Looking further ahead, markets expect the Bank Rate to reach 1.25% by year-end. It is worth highlighting though that the likes of ING, UBS and Pantheon Macroeconomics suggest that this path is likely to prove too aggressive. UBS makes its case on the basis that the August meeting will likely take place at a point where inflation and growth will begin slowing.

QE: After halting the stock of assets under the APF at GBP 895bln (GBP 875bln Gilts and GBP 20bln corporates) in December, focus for the balance sheet will fall on the decision by the MPC to raise the Bank Rate to 0.5%. As a reminder, 0.5% (was lowered from 1.5% in August) is the point at which the Bank will halt reinvestments under the APF.

UBS had previously expected the MPC to hold fire on halting reinvestments until after the GBP 25bln redemption on March 7th, however, the Swiss bank is now of the view that an end to reinvestments is priced in and as such there is a low risk of an adverse reaction. Looking further ahead, the MPC will actively start selling Gilts when the rate climbs to 1%; the pace at which they will sell bonds is yet to be determined.

PROJECTIONS: From a growth perspective, the impact of elevated infection rates on Q1 activity will most likely prompt a downgrade in the GDP forecast for the quarter before picking up in Q2 and Q3, but ultimately resulting in a lowering of the overall 2022 outlook. This, via a Y/Y comparison could see an upgrade to the 2023 forecast of 1.5%. On the inflation front, an upgrade to the 2022 outlook is on the cards given that Q4 CPI printed 0.6pp above the November MPR projection. The medium-term outlook will be a key source of focus for those scrutinising the current hawkish path priced by markets.