PREVIEW: BoE rate decision and minutes due Thursday 22nd September 2022 at 12:00BST/07:00EDT

- **BoE rate decision & minutes due Thursday, September 22nd, 2022 at 12:00BST/07:00EDT.**
- **Analysts expect the Bank Rate will be lifted by 50bps, while markets look for a 75bps move.**
- **Focus will be on how committed the MPC is to further tightening amid recent government announcements.**

Expectations are for the MPC to raise the Bank Rate by 50bps to 2.25%, according to most analysts polled in a Reuters survey, though there are some calls for a 75bps move. The decision to hike rates will likely be unanimous, however the vote over the magnitude of the hike could be subject to some dissent in both a hawkish and dovish direction. Money market pricing expects a 75bps rate rise this week, and foresees rates rising to 3.75% by the end of the year. More aggressive market pricing have emerged in wake of larger rate rises at other global central banks – like at the ECB, Fed and Riksbank this week – with the inflationary outlook for the UK bleak following the 80% increase in the October OFGEM price cap, with further advances expected in January and April. However, the recent energy support package presented by newly-appointed UK Prime Minister Liz Truss has shifted the dial on the inflationary outlook. Despite the near-term implications likely being welcomed by the MPC, Oxford Economics expects the price cap "will support disposable incomes and spending, and keep the labour market tighter than anticipated. This would increase the risk of higher inflation in the medium-term." As such, there is a growing belief amongst market participants that the MPC may need to keep their foot to the rate hiking pedal and delay any prospective rate cuts that some had been hoping for in 2023. With this in mind, the statement will be eyed to see if the MPC reaffirms its commitment to act "forcefully" in the face of inflationary pressures. Also of note for the announcement will be focus on the confirmatory vote for the Bank's Gilt selling programme.

PRIOR MEETING: As expected by both the analyst consensus and money market-based pricing, the BoE raised rats by 50bps, taking the Bank Rate to 1.75%. The decision to raise rates for a sixth consecutive meeting was unanimous, but there was dovish dissent from external member Silvana Tenreyro. For the other eight MPC members, the decision to raise rates by the largest magnitude in 27 years was justified by the view that "there had been indications that inflationary pressures were becoming more persistent and broadening to more domestically driven sectors." On inflation, the three-year projection was seen at just 0.76%. Given that the projections are based on the market-implied rate curve, this suggested that the MPC viewed the current rate path as too aggressive for it to be able to attain its 2% inflation mandate. From a growth perspective, the accompanying projections were sobering reading against the current inflationary backdrop with the UK expected to enter a recession in Q4 and last for five quarters. Despite the growth outlook, the MPC's statement reaffirmed the committee to act "forcefully" in the face of more persistent inflationary pressures. Governor Bailey said that for the meetings that would follow, all options were on the table, but the 50bps increase in August does not mean the BoE is moving to a pre-determined path of hiking rates by 50bps at each meeting. Asides from the decision itself, the MPC announced that subject to a vote, the "Committee is provisionally minded to commence gilt sales shortly after its September meeting."

RECENT DATA: Y/Y CPI in August declined to 9.9% from 10.1% amid a large decline in petrol and diesel prices whilst the core metric rose to 6.3% from 6.2% following a broad pick-up in prices. The latest growth figures from the UK saw a 0.2% expansion in July following the 0.6% contraction in June, with the rebound more tepid than some had hoped for. It's also worth noting that the additional bank holiday in September for the death of Queen Elizabeth II will further distort the month's data. August survey data saw the UK's services PMI fall to 50.9 from 52.6, manufacturing drop to 47.3 from 52.1, leaving the composite in contractionary territory of 49.6. The accompanying report from S&P Global noted that "although the survey data are currently consistent with the economy contracting at a modest quarterly rate of 0.1%, deteriorating trends in order books suggest the incoming prime minister will be dealing with an economy that is facing a heightened risk of recession, a deteriorating labour market and persistent elevated price pressures linked to the soaring cost of energy." On the jobs front, the unemployment rate in the three months to July unexpectedly fell to 3.6% from 3.8% amid a pickup in those classified as "inactive," whilst employment growth slowed to 40k from 160k over the same period. Headline wage growth advanced further to 5.5% in July from 5.1%, albeit in real terms, regular pay fell 2.8% Y/Y. August retail sales saw a 1.6% M/M decline on a headline and core basis with consumer confidence continuing to be dented by the cost-of-living crisis.

RHETORIC: During his appearance before the Treasury Select Committee on September 7th, Governor Bailey emphasised that no testimony provided at the hearing should be taken as a clue as to what the MPC would do at the

September meeting. Further, Bailey at the time refrained from commenting on speculation over what fiscal measures the newly-appointed government would unveil later that week (Note: this announcement is due on September 23rd, a day after the MPC meeting). At the same hearing, Chief Economist Huw Pill said that the very short-term impact of government measures on inflation might not be the most important thing for the MPC, but on net, he expected them to decline. External member Catherine Mann on September 5th noted that .”..a fast and forceful monetary tightening, potentially followed by a hold or reversal, is superior to the gradualist approach because doing so is more likely to promote the role that inflation expectations can play in bringing inflation back sustainably to 2% over the medium term.” Mann also said that it was “an important question” when asked if the Bank could raise rates by 75bps. At the more dovish end of the spectrum, external member and dissenter Silvana Tenreyro on September 7th noted that even without rate increases in August, rates were at a sufficient level to return inflation to target over the medium-term, adding that when close to equilibrium rate, gradual hikes allow BoE to react before it tightens too far into contractionary territory.

RATES: Analysts expect the MPC to raise the Bank Rate by 50bps to 2.25%, according to 40 of 47 surveyed by Reuters, with remaining seven favouring a 75bps move. The decision to raise rates will likely be unanimous, however the vote over the magnitude of the hike could be subject to some dissent. Capital Economics has touted the possibility of a three-way vote split (one vote for 25bps, seven votes for 50bps, and one vote 75bps). Beyond September, analysts seem to be looking for a 50bps increase in November, and 25bps in December, taking the Bank Rate to 3%, where it is expected to stay until October (the August survey expected the rate to peak at 2.5% by year-end). Money markets, however, are pricing a 75bps rate rise to around 80% certainty, and see rates rising to 3.75% by the end of this year. Pricing for the jumbo-size hike accelerated following recent outside hikes by the ECB, Fed and Riksbank this week, with the UK’s inflationary outlook seen to be a bleak ne following an 80% increase in OFGEM’s energy price cap in October, with further advances expected in January and April. Subsequently, the likes of Goldman Sachs have suggested that inflation could have reached 20% in early 2023. However, the recent energy support package presented by newly-appointed Prime Minister Liz Truss has shifted the dial on the inflationary outlook; accordingly, Oxford Economics now expects inflation to peak at around 10.5% in October (vs its previous view of 14-15% in January) and average 5.4% in 2023 (previously saw 10.2%). Despite the near-term implications likely being welcomed by the MPC, Oxford Economics expects the price cap “will support disposable incomes and spending, and keep the labour market tighter than anticipated. This would increase the risk of higher inflation in the medium-term.” As such, there is a growing belief among market participants that the MPC may need to keep their foot to the rate hiking pedal and delay any prospective rate cuts that some had been hoping for in 2023. With this in mind, the statement will be eyed to see if the MPC reaffirms its commitment to act “forcefully” in the face of inflationary pressures.

GILTS: At the August meeting, the statement noted that the “Committee is provisionally minded to commence gilt sales shortly after its September meeting, subject to economic and market conditions being judged appropriate and to a confirmatory vote at that meeting.” As such, the upcoming announcement will be eyed for the outcome of that confirmatory vote. In terms of a potential size for Gilt sales, a total reduction of GBP 80bln in the first year of the scheme was “likely to be appropriate” of which GBP 40bln would be active sales. That said, since the prior meeting, the government announcement on support measures for households will mean that Gilt issuance will likely be significantly higher than previously assumed. Capital Economics judges that the MPC will “carry on as planned and the Bank will start to sell some of its gilts later this month. But the Bank will stress that if it feels its actions are destabilising the gilt market, it will reassess them.”