PREVIEW: BoE rate decision and minutes due Thursday 15th December 2022

- **BoE rate decision & minutes due Thursday 15th December 2022 at 12:00GMT/07:00EST**
- **The MPC is expected to step down from a 75bps cadence of hikes to 50bps**
- **Focus will be on how committed the MPC is to further tightening**

OVERVIEW: The MPC is expected to return to a 50bps adjustment, according to 52 of the 54 analysts surveyed by Reuters, whilst market pricing assigns around a 74% chance of such an outcome. The decision to move on rates is expected to be unanimous, however, given dissent at the November meeting – where Swati Dhingra voted for a 50bps hike, and Silvana Tenreyro for 25bps – it is likely that the decision on the magnitude of the hike will not be unanimous. Capital Economics notes that there is a risk that Tenreyro could opt for an unchanged rate given remarks she made in a recent speech, where she said that “in the most likely scenario, we had already done enough”; she also published a central scenario where rates peak at 3% (current level). Thus, it is likely that the bulk of the focus will centre around the vote split and any adjustment to forward guidance.

PRIOR MEETING: In-fitting with the majority of expectations and market pricing, the BoE hiked by 75bp; however, this was subject to dovish dissent from Dhingra (50bp) and Tenreyro (25bp). Interestingly, the line that “…further increases in Bank Rate might be required for a sustainable return of inflation to target, albeit to a peak lower than priced into financial markets.” was the judgment of a “majority” of the MPC – though, it is unclear whether the other members took issue with the further hikes or the pushback on peak market pricing. For the majority of the MPC, the justification for 75bp was to reduce the risks of more extended and costly tightening later. Alongside this, fresh forecasts were released, which gave a particularly grim outlook for the economy, looking for a QQ GDP print of -0.5% in Q3 2022 vs -0.1% expected in September. The inflation forecast showed a peak around 11% in Q4, which is marginally hotter than the prior meeting’s projection of “just under”.

RECENT DATA: Y/Y CPI for November fell to 10.7% (prev. 11.1%) vs. the MPC forecast of 10.9% with the core rate easing to 6.3% (prev. 6.5%) vs. the MPC forecast of 6.5%. Monthly GDP data for October saw a 0.5% expansion vs. the 0.6% contraction seen in September with the October outturn supported by a favourable M/M comparison given fewer working days in September on account of the Queen's funeral. More timely survey data for November saw the services PMI remain at 48.8, manufacturing climb to 46.5 from 46.2, leaving the composite at 48.2. The accompanying report noted "a further economic contraction signalled by the PMI surveys hints at a growing recession risk for the UK", adding that figures were "indicative of GDP falling at a quarterly rate of 0.4%". In the labour market, the unemployment rate rose to 3.7% from 3.6% in the three months to October, whilst headline earnings growth advanced to 6.1% from 6.0% and the HMRC payroll change data for November showed a monthly increase of 107k. Retail sales for October (November isn't due until the day after the decision) showed a M/M expansion of 0.6% with the release impacted by the additional bank holiday for the State Funeral. Note, retail sales volumes are 0.6% lower than pre-pandemic levels. It's also worth noting the presentation of the Autumn Statement on 17th November, however, it is unclear how much of a role this will play in the BoE's thinking given a bulk of the measures will not come into effect for another two years.

RHETORIC: Since the prior meeting, Governor Bailey (Nov 16th) remarked that it is likely that rates will increase further and that data shows the labour market remains tight. Chief Economist Pill cautioned (Nov 8th) there is a danger of self-fulfilling dynamics on the wage-cost nexus and reiterated that there is more to do, and a need to raise rates to tighten monetary policy. Deputy Governor Broadbent (Nov 16th) noted that there should not be too much focus on the length of the recession as the profile is very flat. Deputy Governor Ramsden (Nov 24th) stated "however challenging the short term consequences might be for the UK economy, the MPC must take the necessary steps in terms of monetary policy to return inflation to achieve the 2% target sustainably in the medium term". External member Mann (Nov 16th) is of the view that more shocks have become embedded in price and wage setting within the UK, adding that front-loaded rate rises potentially have superior inflation outcomes. External member Haskel (Nov 11th) stated that it is important for monetary policy to stand firm against the risk of persistent inflationary pressure. At the dovish end of the spectrum, dissenter-Dhingra (Nov 16th) cautioned that “there is a risk of over-tightening, and that's the thing I am worried about at this point.” The other dissenter from the November meeting, Tenreyro (Nov 11th) said that “in the most likely scenario, we had already done enough”; she also published a central scenario where rates peak at 3% (current level).

RATES: Policymakers on the MPC are expected to step down to a 50bps rate hike pace compared to the 75bps move implemented in November. The decision to “go big” last month was largely based on the disappointment from the market that the MPC “only” went for 50bps in September. This time around, and with 290bps of rate increases under their belts thus far, the MPC is expected to return to a 50bps adjustment, according to 52 of the 54 analysts surveyed by Reuters, whilst market pricing assigns around a 74% chance of such an outcome. Given dissent at the November meeting – where Swati Dhingra voted for a 50bps hike, and Silvana Tenreyro for 25bps – there is a risk that the decision might not be unanimous. Credit Suisse touts the possibility of a 2-5-2 split, where Tenreyro and Dhingra could vote for 25bps, Haskel and Mann vote for 75bps, and with the remainder opting for 50bps. Capital Economics notes that there is a risk that Tenreyro could opt for an unchanged rate, given remarks she made in a recent speech, where she said that “in the most likely scenario, we had already done enough”; she also published a central scenario where rates peak at 3% (current level). With this in mind, there is a possibility of a four-way split on this aspect of the vote. It is likely that the bulk of the focus will centre around this element of the decision, and any adjustment to forward guidance, which currently reads “the majority of the Committee judges that...further increases in Bank Rate may be required for a sustainable return of inflation to target, albeit to a peak lower than priced into financial markets.” Beyond this week’s meeting, analysts surveyed by Reuters expect the BoE will carry out a further 50bps of rate hikes in Q1, followed by 25bps worth in Q2, taking the terminal rate to 4.25%; market pricing takes a slightly more hawkish view and sees the terminal rate at 4.5%.