PREVIEW: BoE rate decision, minutes and MPR due Thursday 23rd March 2023

- **BoE rate decision and minutes due Thursday 23rd March 2023 at 12:00GMT/08:00EDT**
- **February inflation data cemented expectations of a 25bps hike in the Base Rate**
- **MPC will likely stress that it has the ability to address financial stability concerns whilst continuing the fight against inflation**

OVERVIEW: Consensus looks for a 25bps hike in the Base Rate to 4.25% from 4.0%, according to 42/47 analysts surveyed by Reuters, whilst the remaining five look for unchanged. In terms of market pricing, 25bps is fully priced following the February inflation data. The decision to move on rates is expected via a 6-3 vote split, however, it is worth noting that within the 6 there could be a further split whereby some MPC members such as external member Mann may wish for a 50bps adjustment. It is also worth noting that financial stability concerns have mounted ahead of the upcoming meeting. However, the MPC will likely stress that it has the ability to address such issues, whilst at the same time combating inflationary pressures.

PRIOR MEETING: As expected, the BoE opted to defy some outside bets for a 25bps hike and raised the Bank Rate by 50bps to 4.0%. The vote split was a replica of what we saw at the December meeting with dissent from Tenreyro and Dhingra, whilst the remainder of the MPC opted for a 50bps hike. Elsewhere, focus for the release was on the MPC's adjustment to its guidance on rates which saw policymakers ditch the use of "forcefully" and now state that "if there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required". Some desks suggested that the conditionality on further rate hikes could be suggestive that a pause in hikes is forthcoming. Accordingly, market pricing moved in a more dovish manner with odds of a 25bps March hike falling to around 60% from 80% pre-announcement with the chance of a May 25bps move around 12% vs. around 50% pre-announcement. The accompanying MPR saw a downgrade to the 2023 inflation forecast to 4.0% from 5.25% with inflation of just 1.5% next year. Interestingly, the MPC's constant rate forecast (i.e. if rates are held at 4%), suggests that CPI would be projected in two years at 0.8% and 0.2% in three years, therefore suggesting that current policy would be far too tight over the medium-term for the MPC to reach its inflation mandate. On the growth front, the dire 2023 forecast made in the MPR was upgraded, but still seen at -0.5% with a further contraction of 0.25% expected next year.

RECENT DATA: February inflation data saw the Y/Y headline print unexpectedly rise to 10.4% from 10.1% (exp. 9.9%), whilst the core reading advanced to 6.2% from 5.8%. On the data, Pantheon Macro noted that "while the headline rate exceeded the MPC’s 9.9% forecast, its measure of “core services” CPI inflation—which excludes transport services, package holidays and education—undershot its 6.9% forecast, despite rising to 6.7%, from 6.1%". From a growth perspective, January GDP exceeded expectations, printing at 0.3% vs. consensus of just 0.1% with the growth attributed to a bounceback from one-off factors which impacted the December release. More timely survey data showed the Services PMI for February rising to 53.5 from 48.7, manufacturing advancing to 49.3 from 47.0, leaving the composite at 53.1 vs. prev. 48.5. The accompanying report from S&P Global noted that "as recessionary fears started to recede, there were expectations of improving business opportunities in the next 12 months resulting in the highest future optimism since March last year." In the labour market, the unemployment rate in the three months to January held steady and near historic lows at 3.7%, employment growth rose by 65k and headline earnings growth cooled to 5.7% from 6.0%. Retail sales for February are not released until the day after the decision. However, the January data exceeded expectations with the M/M rate coming in at 0.5% vs. Exp. -0.3% with the upside in part attributed to discounting by retailers. That said, ING reminds us that sales have been on a gradual downtrend since October 2021 and are down 7% since then, and indeed now lie below pre-Covid levels.

RHETORIC: Since the prior meeting, Governor Bailey (1st Mar) cautioned against suggesting either that the BoE is done with hiking rates or will inevitably need to do more. Bailey added that the MPC will have to monitor carefully how the tightening already done is working its way through the economy. Chief Economist Pill (2nd Mar) noted that survey indicators that have become available since the publication of the forecast have surprised to the upside, suggesting that the current momentum in economic activity may be slightly stronger than anticipated. Previously, he also stated (9th Feb) there is substantial monetary policy tightening still to come through as a result of lags in transmission. External member Haskel (9th Feb) raised concerns over the momentum building on inflation, adding that economic theory suggests that uncertainty around the persistence of inflation should be met with more forceful action. Renowned-dove and external member Tenreyro (9th Feb) was of the view that "rates are too high", adding that she would consider voting for a rate cut, but could not say at which meeting she would vote for one. Elsewhere at the dovish end of the spectrum, Dhingra (8th Mar), stated she believes that overtightening poses a more material risk at this point via potential negative impacts from increased borrowing costs and reduced supply capacity going forwards. Dhingra expanded on this by noting a prudent strategy would hold policy steady amidst growing signs external price pressures are easing, and be prepared to respond to developments in price evolution. Vocal hawk and external member Mann (7th) believes that more needs to be done on rates amid concerns over the persistence of core inflation and the strong pricing power of firms. At an earlier speech, Mann (23rd Feb) noted that she did not view current UK monetary policy as particularly restrictive.

RATES: Consensus looks for a 25bps hike in the Base Rate to 4.25% from 4.0%, according to 42/47 analysts surveyed by Reuters, whilst the remaining five look for unchanged. In terms of market pricing, 25bps is fully priced following the February inflation data. The decision to move on rates is expected via a 6-3 vote split, however, it is worth noting that within the 6 there could be a further split whereby some MPC members such as external member Mann may wish for a 50bps adjustment. In terms of the framing for the upcoming decision, the February statement saw markets coalesce around the view that the MPC was nearing the end of its tightening cycle after dropping the word "forcefully" from its guidance on rates. Additionally, the readout noted that "if there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required"; a statement which ING viewed as meaning that the MPC would be less swayed by M/M developments in inflation and instead focus on the broader trend of price setting behaviour. In terms of recent indicators, wage data surprised the MPC to the downside, whilst the closely watched BoE Decision Maker Panel survey highlighted that firms' 12-month price increase expectations are beginning to wane. That said, the February inflation data will not have been welcomed by the MPC. Accordingly, consensus judges the latest inflation and wage developments are not sufficient enough yet for the MPC to consider a pause. Elsewhere, the meeting comes against the backdrop of global financial stability concerns. However, ING makes the distinction that the pick-up in Gilt volatility has not been as pronounced as that of Bunds and USTs given that 1) the UK is perceived to be better insulated to banking troubles hitting other jurisdictions and 2) markets had already integrated the BoE’s message that this cycle is nearing its end. Furthermore, it will not be lost on some market participants that the ECB has already presented a case study on how to carry on hiking rates to combat inflation whilst stressing prudence over financial stability. The case can be made in either direction for the MPC pausing or hiking, and in the end the MPC opting to pause this week might not necessarily mean that terminal has been reached and instead, policymakers may wish for more time to assess the inflation outlook or impact of recent financial turmoil. On QT, no changes are expected.