PREVIEW: BoE rate decision, MPR and minutes due Thursday 1st February 2024

- **BoE rate decision and minutes due Thursday 1st February 2024 at 12:00GMT/07:00EST, press conference at 12:30GMT/07:30EST**
- **The MPC is expected to keep rates on hold via a 9-0 vote split**
- **Accompanying MPR will be eyed to see if the BoE validates market expectations**

OVERVIEW: Analysts are unanimous in their view that the MPC will once again stand pat on rates, leaving the Bank Rate at 5.25%. The vote will likely be unanimous, with the three December dissenters (Greene, Haskell, Mann) likely to move to the “unchanged” camp after being wrongfooted by the November inflation report. Since the prior meeting, the annualised rate of headline inflation unexpectedly advanced to 4.0% Y/Y from 3.9%, while the services print ticked higher to 6.4% Y/Y from 6.3%. However, expectations for the broader disinflationary trend to continue remain in place. Elsewhere, GDP in November expanded 0.3% M/M (vs the 0.3% contraction the prior month) and survey data remains strong. Incremental commentary from the MPC has been minimal, cementing expectations of a hold on policy. Beyond the upcoming meeting, markets fully price in a June cut, with a total of 104bps of easing seen by year-end. Thirty-eight of the 70 economists surveyed by Reuters expect the first cut to come in Q2, with all but four seeing at least one cut before September. For the accompanying MPR, Oxford Economics expects that the MPC will “bring forward the timing of when it expects inflation to return to the 2% target to Q2 2024 from end-2025.”

PRIOR MEETING: As expected, the MPC opted to stand pat on rates for a third consecutive meeting via a 6-3 vote with hawkish dissent once again from Greene, Haskel and Mann. The decision to stand pat on rates was based on the judgement that although “some of the news in key data had been to the downside since the MPC’s previous decision, economic developments had been relatively limited overall”. Overall, the key takeaway from the release, however, was the decision to maintain the phrase that policy will need to be restrictive for an “extended” period of time. Furthermore, it remains the case that further tightening would be required if there were evidence of more persistent inflation pressures. Indeed, some of the language within the minutes leaned hawkishly by noting that “it was too early to conclude that services price inflation and pay growth were on a firmly downward path.” That being said, the inflation path was somewhat lower than projected in November, reflecting softer energy prices. In response to the announcement, pricing shifted hawkishly from 114bps of cuts priced across 2024 to 107bps, with the first cut pushed back to June from May beforehand, with a May cut priced at 80% implied probability and a March cut falling to less than 30% implied vs 40%.

RECENT DATA: Since the prior meeting, the annualised rate of headline inflation unexpectedly advanced to 4.0% Y/Y from 3.9%, while the services print ticked higher to 6.4% Y/Y from 6.3%. However, expectations for the broader disinflationary trend to continue remain in place; ING bank is of the view that inflation will dip below 2% in April and sit around the 1.5% area in May/June. The December BoE DMP survey saw the 1yr ahead inflation forecast fall to 4.0% from 4.4% with the three year slipping to 3.1% from 3.2%. Elsewhere, GDP in November expanded 0.3% M/M (vs the 0.3% contraction the prior month). Survey data remains strong with the January composite PMI rising to 52.5 from 52.1 with the services print at 53.8 vs. prev. 53.4. In the labour market, the unemployment rate (subject to data quality concerns) held steady at 4.2%, while headline earnings growth in the 3M/YY period to November fell to 6.5% from 7.2%. Softness has been observed in the consumer too, with monthly retail sales -3.2% in December from 1.4%.

RECENT RHETORIC: Comments from the BoE have been limited since the prior meeting with remarks by Governor Bailey as the FSR hearing on Jan 10th not providing much new. Deputy Governor Broadbent noted that the MPC may need to wait for longer than normal to conclude that wages are on a firmly downward trend. Deputy Governor Breeden says that she is "focused on whether there is evidence of more persistent inflationary pressures which means we may need to tighten further".

RATES: Analysts surveyed are unanimous in their view that the MPC will once again stand pat on rates, leaving the Bank Rate at 5.25%. The vote will likely be unanimous, with the three December dissenters (Greene, Haskell, Mann) likely to move to the “unchanged” camp after being wrongfooted by the November inflation report. For the policy statement, ING is of the view that current guidance of "further tightening" being required if there is evidence of “more persistent inflationary pressures" will be scrapped. However, the MPC will likely continue to judge that policy will need to stay “sufficiently restrictive for sufficiently long" and likely stay restrictive for “an extended period of time.”. Beyond the upcoming meeting, markets fully price in a June cut with a total of 104bps of easing seen by year-end. Thirty-eight of the

70 economists surveyed by Reuters expect the first cut to come in Q2, with all but four seeing at least one cut before September.

MPR: For the accompanying macro projections, Oxford Economics notes that recent inflation developments, lower energy prices and a higher trade-weighted GBP mean that the MPC will likely "revise down its inflation forecast significantly". Adding that it expects that the MPC will “bring forward the timing of when it expects inflation to return to the 2% target to Q2 2024 from end-2025.” That being said, reason for caution stems from the view that lower inflation forecasts could lead to a stronger outlook for activity. Furthermore, it is worth noting that market expectations of the rate path are notably lower than they were at the time of the prior MPR in November which could limit the extent of any reductions in inflation projections. Note, given the MPC's "patchy" record when it comes to forecasting, the projections will likely be taken with a pinch of salt by the market and greater focus instead may be placed on qualitative changes to the policy statement.

Current forecasts

Inflation:

2023 4.75% 2024 3.25% 2025 2%

Growth:

2023 0.50% 2024 0% 2025 0.25%