PREVIEW: BoE rate decision, minutes and MPR due Thursday 7th November 2024

- **BoE rate decision, minutes and MPR due Thursday 7th November 2024 at 12:00GMT/07:00EST, press conference due at 12:30GMT/07:30EST**
- **MPC is expected to cut the Base Rate by 25bps to 4.75% via a 7-2 vote split**
- **Focus will be on what/if any hints are made over the Bank's future easing plans**

OVERVIEW: The BoE is widely expected to cut its Base Rate by 25bps to 4.75% via a 7-2 vote. Headline inflation has dropped below target, while weaker PMI data in October supports easing policy. Attention will be on what/if any signalling the BoE provides on future easing given the market reaction to last week's budget which saw a trimming of dovish bets for the December meeting.

PRIOR MEETING: As expected, the MPC opted to keep the Base Rate at 5.0% after delivering a 25bps rate cut at the prior meeting. The decision to maintain policy settings was made via an 8-1 vote (vs. consensus 7-2) with Dhingra the lone dissenter in voting for a rate cut. Within the consensus that backed an unchanged rate, "there was a range of views among these members on the degree to which the unwinding of past global shocks, the normalisation in inflation expectations and the current restrictive policy stance would lead underlying domestic inflationary pressures to continue to unwind". For most members, it was noted that "in the absence of material developments, a gradual approach to removing policy restraint would be warranted". This view was echoed by Governor Bailey who remarked that the MPC must be careful not to cut rates too fast, or by too much. Furthermore, the policy statement reiterated that policy "will need to continue to remain restrictive for sufficiently long". Aside from the rate decision, the MPC also voted unanimously to reduce the stock of Gilts by GBP 100bln between October 2024 and September 2025 (as expected). Overall, the tone of the policy statement was one of caution with the MPC very much in data-dependent mode.

RECENT DATA: Headline Y/Y CPI in September fell to 1.7% from 2.2%; first time below target since April. Furthermore, core Y/Y declined to 3.2% from 3.6% and the all-important services metric slowed to 4.9% from 5.6%. Elsewhere on the inflation front, the BoE's Decision Maker Panel report saw the one and three year ahead inflation forecasts both fall to 2.6% from 2.7%. M/M GDP in August picked up to 0.2% from 0.0% with the 3M/3M rate slowing to 0.2% from 0.5%. More timely survey data from S&P global saw the October services PMI decline to 51.8 from 52.4, manufacturing slip into negative territory at 49.9 vs. prev. 50.3, leaving the composite at 51.7 vs. prev. 52.6. The accompanying release noted "The early PMI data are indicative of the economy growing at a meagre 0.1% quarterly rate in October". In the labour market, the unemployment rate unexpectedly declined to 4.0% from 4.1% in the 3M period to August, employment growth rose to 373k (largest 3M increase on record) from 265k, however, the more timely HMRC payrolls change printed at -15k, whilst headline earnings growth slowed to 3.8% from 4.1% on a 3M/YY basis.

RECENT RHETORIC: Since the previous meeting, the most notable interjection has come from Governor Bailey who remarked that the bank could be a "bit more aggressive" in cutting rates provided the news that inflation continues to be good. These comments were followed up the next day by a more cautious tone from Chief Economist Pill who stated that there is ample reason for caution in assessing the dissipation of inflation persistence, adding that the need for such caution points to a gradual withdrawal of monetary policy restriction. At the hawkish end of the spectrum, external member Mann has noted that service prices still have a long way to go, whilst also stating that it would be premature to cut rates if there is a structural persistence in the relationship between wages and prices. External member Greene reiterated her stance that rate cuts should remain cautious and gradual, adding that it is more likely that policy will need to bear down on inflation.

RATES: Expectations are unanimous that the BoE will cut its Base Rate by 25bps to 4.75%. This is according to 72/72 analysts surveyed by Reuters; polling taken before the October 30th budget. Market pricing assigns a 90% chance of such an outcome. The fallout from the UK budget lit a fuse under UK yields on account of firmer near-term growth and elevated borrowing requirements. This will provide food for thought on the MPC but is unlikely to impact this week's decision. The backdrop to the upcoming meeting has seen headline inflation drop below target for the first time since April 2021 whilst the widely-watched service print showed a sizeable downtick to 4.9% from 5.6%. Elsewhere, recent sentiment data saw declines in services and manufacturing PMIs during October with the latter delving into negative territory for the first time since April. As such, after skipping a cut at the prior meeting, the MPC will feel emboldened to dial down the restrictiveness of current policy. Consensus looks for a 7-2 vote in favour of such a move with dissent expected from Mann and one other member of the MPC; Pantheon Macroeconomics flags the risk of Dhingra voting for a 50bps reduction. In terms of the accompanying statement, focus will be on whether the MPC reiterates that policy will need to continue to "remain restrictive for sufficiently long". Beyond the upcoming meeting expectations for a December move have been scaled back given the near-term growth implications of the recent UK budget. Markets assign a 20% chance of a cut next month vs. 50% ahead of the budget; Morgan Stanley abandoned its call for a December cut following the budget.

MPR: For the accompanying MPR, Pantheon Macroeconomics highlights that it is hard to gauge how the budget will be factored into forecasts given the proximity of the two events. However, the consultancy expects the MPC to raise its mode and mean inflation forecasts by 20bps at the two-year horizon, and to set mean inflation at 2.0% in Q4 2027. From a growth perspective, PM looks for upgrades to 2024 and 2025 GDP forecasts. As highlighted by Rabobank, it is worth noting that the "Bank's forecasts are typically pegged to an implied path of interest rates based on the 15 working days leading to the end of October". Rabo noted that this would be a rate curve that's noticeably lower than the current one and inconsistent with how the market views the recent Budget.

Current forecasts

Inflation:

- 2024: 2.75% (prev. 2.5%)
- 2025 2.25% (prev. 2.25%)
- 2026 1.5% (prev. 1.5%)

Growth:

- 2024 1.25% (prev. 0.5%)

- 2025 1.0% (prev. 1.0%)
- 2026 1.25% (prev. 1.25%)