PREVIEW: Bank of England Announcement and MPR due Thursday 5th February at 12:00 GMT / 07:00 EST

- **The Bank of England is widely expected to keep Bank Rate unchanged at 3.75% at its Feb. 5 meeting.**
- **The vote split once again draws attention with views diverging between 7-2 or 6-3.**
- **February's forecasts will include the first formal look at the November Budget; the near-term CPI view is expected to be revised lower.**

OVERVIEW: The Bank of England is widely expected to keep Bank Rate unchanged at 3.75% at its Feb. 5 meeting, with near-unanimous agreement in the latest Reuters poll for a hold. For February, attention will centre on the vote split and guidance. To recap, in December, the MPC voted 5-4 to cut, despite some signs of firmer activity, while the vote split was a hawkish surprise given the CPI print in the run-up to the meeting. While a hold is widely expected, the vote split once again draws attention with views diverging between 7-2 or 6-3, with Ramsden the one to watch. In terms of forward guidance, the "gradual downward path" line is expected to be retained. Thereafter, attention turns to the forecasts with the November Budget expected to lower the near-term inflation view, but further out, the measures may be judged as somewhat inflationary. In terms of bank commentary, Pantheon Macro sees risks skewed in a hawkish direction, given the potentially limited space to the neutral rate. While Morgan Stanley outlines the case for a subtle dovish tilt, with emphasis on the labour market. The press conference following publication of the MPR will be at 12:30 GMT / 07:30 EST.

DATA: Overall, data since December is unlikely to significantly shift the BoE's approach. December's CPI came in at 3.4% Y/Y (MPC exp. 3.5%, market exp. 3.3%), with the Services figure also undershot the MPC's view at 4.5% (MPC exp. 4.6%). Labour market indicators are somewhat mixed, but overall they continue to point to a weak labour market. Specifically, November's unemployment rate remained at 5.1%, defying consensus for a moderation to 5.0%, while the claimant count for December came in above consensus. Note that while the accompanying wage metrics moderated from the prior, the ex-bonus figure was hotter-than-expected. Activity data has been strong, including above market consensus GDP, retail sales and PMIs.

FORECASTS: February's forecasts will include the first formal look at the November Budget. Amidst this, the near-term CPI view is expected to be revised lower, reflecting the disinflationary effects of energy-bill support, the freezing of rail fares, and the assumption of delayed fuel-duty increases. Further out, though, the forecasts may be subject to an upward revision in 2028 while the first look at 2029 is skewed towards a print above the 2.0% forecast level (see below for more). On growth, desks expect the near-term view to be revised modestly lower, given labour market data and subdued economic momentum; though, as above, recent activity-related data points have surprised to the upside. Further out, a modest improvement is expected as fiscal and monetary policy action filters through. In addition to the formal forecasts, we also get the Agents' Summary of Business Conditions; Morgan Stanley expects annual pay settlements to be indicative of pay growth slowing to around 3.3% by late-2026 (vs. 3.9% in 2025).

Inflation

- 2026 Q1: 3.1% (PM: N/A, GS: 2.9%, MS: 3.0%)
- 2027 Q1: 2.2% (PM: 1.8%, GS: 1.8%, MS: 1.8%)
- 2028 Q1: 2.1% (PM: 2.2%, GS: 2.2%, MS: 2.0%)
- 2029 Q1: N/A (PM: 2.1%, GS: 2.2%, MS: 1.9%)

GDP

- 2026 Q1: 1.1% (PM: N/A, GS: 0.8%, MS: 0.8%)
- 2027 Q1: 1.5% (PM: 1.6%, GS: 1.8%, MS: 1.5%)
- 2028 Q1: 1.8% (PM: 1.8%, GS: 1.8%, MS: 1.7%)
- 2029 Q1: N/A (PM: 1.8%, GS: 1.7%, MS: 1.7%)

PM = Pantheon Macroeconomics, GS = Goldman Sachs, MS = Morgan Stanley

RECENT COMMENTARY: BoE's Greene (23rd Jan): Due to spillovers, there can be a case for the BoE doing the opposite of the Fed in cases of divergence. BoE survey data suggests that the decline in wage growth has now run its course. Forward indicators for wage growth are even more concerning than inflation expectations. BoE Deputy Governor Ramsden (14th Jan): Key difference for policy this year is not looking for a hump in CPI. Wages will remain a key focus for him. The labour market is continuing to weaken. The starting point is that the neutral rate is in the middle of a 2-4% range. Unemployment and redundancies are picking up. BoE’s Taylor (14th Jan): "expect monetary policy to normalise at neutral sooner rather than later, as I said in the December minutes". BoE sees inflation at target in mid-2026, judges this to be sustainable given cooling wage growth. "Interest rates should continue on a downward path, that is if my outlook continues to match up with the data, as it has done over the past year." BoE Governor Bailey (19th Dec): Confident that inflation will be close to target by late spring, giving a good reason to expect a bit more downward path on rates.

HOUSE VIEWS: Morgan Stanley expects a 6–3 vote to hold and no change in guidance. It sees five MPC members as potentially open to a 25bps cut but expects just Dhingra, Taylor and Ramsden to dissent in February. If 6-3 does not occur, MS thinks the risks are skewed slightly more towards 5-4 than 7-2. Goldman Sachs looks for a 7–2 vote to hold, with Taylor and Dhingra dissenting and guidance largely unchanged. Highlighting that the forward-looking Taylor rule, referenced by Bailey in November, could imply marginally less easing, as it looks through near-term forecasts and responds instead to medium-term inflation. Pantheon Macroeconomics expects a 6–3 vote to hold, with Taylor, Ramsden and Dhingra favouring a cut. It argues the decision itself is a foregone conclusion and that guidance is likely to continue signalling a “gradual downward path” for rates, albeit with longer gaps than in 2025. Writing, “All told, we think the market is right to fully price only one more rate cut this year, with a chance of hikes starting early in 2027".