



## PREVIEW: BoE Policy Announcement due Thursday, 19th March at 12:00GMT/08:00EDT

- Expected to maintain the Bank Rate at 3.75% as the Middle East energy shock has seen a hawkish repricing and a pushback on calls for a March or April hike.
- As such, attention will be on how the BoE assesses the impact of the shock and what the policy path may be; however, the MPC will likely keep optionality open at this stage.

**OVERVIEW:** Expected to maintain the Bank Rate at 3.75%, the decision could be subject to dovish dissent from Dhingra and/or Taylor. Though, the Middle East conflict could serve as enough of a potential inflationary shock that all members vote for unchanged. Alternatively, some of the dovish contingent may already be looking ahead to the likely economic impact of the conflict, and thus be in favour of further accommodation; however, it is likely premature for such a vote. Overall, the decision will likely be unchanged as the MPC awaits further insight on the shock and economic implications of it. Focus from the statement and/or press conference will be on just how hawkish the MPC tilts given the likely inflationary implications, and, as part of that, whether the potential hit to activity/growth/employment tempers that and keeps the assessment that the Bank Rate is "likely to be reduced further" alive. Note, this meeting does not include an MPR, the next one is scheduled for the 30th of April.

**PREVIOUS MEETING:** In February, the BoE held Bank Rate at 3.75% in a 5-4 vote split, a much more dovish split than the 7-2 market consensus. The breakdown saw Breeden, Dhingra, Ramsden and Taylor vote for a cut. As such, Governor Bailey once again cast a tie-breaking vote. The accompanying statement reiterated that rates are "likely to be reduced further" and acknowledged that the risk of inflation persistence is now "less pronounced", while cutting its inflation projections across the forecast horizon and flagging rising slack in the labour market. Thereafter, Governor Bailey spoke and outlined that they expect to ease further but that they need to see more evidence that inflation will sustainably return to target, hence why they (i.e. Bailey) did not cut.

**MIDDLE EAST:** In short, the energy price shock presents a sufficient inflationary risk that Governor Bailey and enough of his peers will likely want some time to develop an assessment of how lasting the shock will prove to be before continuing the descent down 'Table Mountain'. Specifically, Bailey's remarks last time that the MPC needed to see more evidence that inflation will sustainably return to target, will potentially form the basis of the argument for not easing at that point and very much taking a wait-and-see approach.

As the conflict and energy disruption is ongoing, forecasting the impact of it on UK inflation is tricky. Nonetheless, OBR's Miles on the 10th of March remarked that if prices were to remain where they are, then they would expect CPI to end 2026 near 3% vs their forecast for 2%. While the immediate implications are hawkish on the inflation side of things, the impact to economic activity if the situation continues will weigh on the dovish side of things and add to the pre-conflict narrative for another cut or two by the BoE. Specifically, the conflict could weigh on activity, consumer spending and an already pressured jobs market. Points that increase the odds of easing and while a cut is all but ruled out in March given the energy shock, such an impact keeps the prospect of easing in 2026 alive and places even greater scrutiny than normal on MPC communication and UK data.

**RECENT DATA:** Note, we are yet to see a data print that encapsulates the Middle East conflict. January's GDP was weaker than expected, showing the economy starting 2026 off with no growth; a particularly bleak start considering the Middle East situation will undoubtedly weigh on activity in the near term at least. January's CPI was as-expected, at 3.0% Y/Y and 3.1% for the core, while the Services rate was 4.4% (exp. 4.3%); as a reminder, the BoE's headline forecast for that period was 2.9%. Inconveniently, the January jobs report is due just before the policy announcement. A series that is expected to feature a 5.2% unemployment rate, in-line with the last reading which, as a reminder, sparked a marked dovish reassessment at the time. Overall, the lack of growth in January, a somewhat hot inflation print and a weak jobs report bode poorly for the domestic economy into the Middle East shock.

### DESK CALLS:

- UBS expects the BoE to cut in April and July 2026 (prev. forecast March and June 2026).
- JPMorgan looks for a cut in April (prev. forecast March).
- Goldman Sachs forecasts cuts in April, July and November (prev. forecast March, June & September).

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