newsquawk

PREVIEW: BoE Policy Decision on Thursday, 18th June 2026 at 12:00BST/07:00EDT

- Expected to maintain the Bank Rate at 3.75%. Consensus was in favour of this even before the recent moderation in energy prices and May's CPI report.
- Points that could see a unanimous vote for unchanged. However, hawkish dissent from Chief Economist Pill and potentially one or two more policymakers remains possible.
- Overall, the skew for the BoE ahead is to an unchanged Bank Rate for the foreseeable, but with risks to tightening depending on how prices develop and the economy holds up over the next few months.

OVERVIEW: Prior to the US-Iran breakthrough the skew was to a more hawkish BoE. That is still potentially the case from the vote split. However, in terms of guidance, there is no need for the BoE to make a significant shift at this point, and instead they will continue to stress optionality, reference the policy space available to them and be non-committal at this point while retaining the ability to act and not tying themselves to clarity on second-round effects, among other points. The vote split will likely be 8-1 once again, with Huw Pill set to dissent. However, the likes of Greene and/or Mann could join based on recent commentary. Alternatively, all officials may take the geopolitical deal and the fall in Brent at face value and vote to keep rates unchanged in June and wait to see how things have progressed by July, when a new set of forecasts will be available. A narrative added to by the May CPI report coming in cooler-than-expected. Furthermore, the additional bps of upside in the UK 10yr yield we may see following a Burnham premiership if he wins the Makerfield by-election, which is also in Thursday's session, will assist the BoE in combating price pressures. Overall, the narrative for the BoE is likely an extended hold, but with risks to tightening if more substantial or widespread price pressures materialise.

ENERGY: Governor Bailey in April outlined three main points of focus for the period ahead, namely, energy prices, indirect effects and second-round effects. In the April forecasts, Brent was seen averaging USD 100/bbl. Last week, it was down to USD 93/bbl and in the week of the BoE it has moved below the USD 80/bbl handle. This alone will likely be sufficient for Bailey, and by-extension, a majority of the BoE to maintain policy conditions and be non-committal on forward guidance while they wait for more input on indirect and second round effects. The energy moderation speaks well for indirect effects as the gradual normalisation of prices filters through and we move towards more typical energy activity, production and supply levels. Furthermore, this should limit second round effects, though we may still see a temporary bounce in the period ahead as the energy shock over the last few weeks filters through. As a reminder, the ECB in June said it was confident that it was not seeing second round effects, and while they hiked rates their monetary conditions were and still are less restrictive when compared to the BoE's policy settings.

DOMESTIC DATA: Most pertinently and recently, May's CPI printed cooler-than-expected on a headline and core basis, while the key services Y/Y component was either in-line or marginally hotter-than-expected by the market, depending on the vendor utilised for the forecast; irrespective, it was cooler than the BoE's own projection. A print which, alongside the recent energy pullback, has reduced the odds of a hawkish surprise from Threadneedle St. The latest DMP, conducted between the 8th-22nd of May, saw one-year CPI expectations increase to 3.7% (prev. 3.5%) and the three-year remained at 2.8% for the three months to May coverage. On a single-month basis, the year-ahead view fell to 3.7% (prev. 4.0%). April's GDP was weak at -0.1% M/M, though the three month average was robust at 0.7%. March's unemployment rate ticked up to 5% (prev. 4.9%), with the series overall in-fitting with a labour market that remains soft, while early estimates for April via the ONS point to "further weakness". Away from hard data, S&P PMI for May was indicative of an economy contracting at a 0.2% quarterly rate and outlined that things could deteriorate ahead, while prices are "surging".

Elsewhere, the BoE occurs on the same day as the Makerfield by-election. The results of that will not be known until the early hours of Friday. However, if Burnham wins and then becomes PM in the near term, then Pantheon Macroeconomics outlines that we could see 7-14bps of additional upside in the UK 10yr yield. Additional political premium that will be of concern for policymakers, though the more restrictive financial conditions will assist in combating price pressures.

RECENT COMMENTARY: For Bailey's recent remarks, see the energy section above. In brief, the vote split is likely to be 8-1 once again with Pill the sole hawkish dissenter. On the 14th of May, Pill said that he is concerned that second round effects could be stronger, and that policymakers should be focusing on tackling such effects. However, recent energy moves on geopolitical progress and the May CPI report mean that a unanimous decision to hold cannot be ruled out, while the BoE waits for more information. If more of the MPC joins Pill in voting for a hike, then it will likely be one or both of Greene and Mann. On May 20th, Mann expressed concern about the possibility of high inflation becoming embedded in wage deals, and described the labour market softening seen in recent prints as not broad based. Greene has continued to place significant focus on second round effects.

PREVIOUS MEETING: In April the BoE maintained the Bank Rate at 3.75%. The decision was subject to an 8-1 split, which can be argued as dovish/hawkish or in-line depending on which of the wide spread of expectations was used. The announcement sparked a modest dovish reaction, seemingly on an unwinding of expectations for a more hawkish split following the Fed. Furthermore, the language from most policymakers outlined that a hold is the most appropriate course of action at this time, while they wait for information on the size and duration of the shock, alongside the potential second-round effects. Pertinently, and lending a hawkish skew to things, Governor Bailey's statement noted that he placed weight on Scenario B, but with slightly reduced second-round effects, and some weight on Scenario C, which would require a stronger monetary policy response. Overall, the skew from the BoE was towards tightening in 2026. However, the timing and magnitude of any action remained unclear given the significant levels of uncertainty and lack of clarity on second round effects. As such, the assessment at the time was that a move in June was plausible, but with a skew towards the July MPR.