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GLOBAL ECONOMICS

FLASH REPORT

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BoE: Reliable Boyfriend Goes Steady with Unchanged Rate

- **The BoE took it easy today, announcing an unchanged Bank Rate at 5.00%, while sticking to a limited to non-existent forward guidance approach, and repeating a £100bn/annum balance sheet reduction plan.**
- **The of 8–1 hold-cut vote split was marginally more hawkish than expected, but maybe should not surprise after the very narrow 4–5 hold-cut vote in August. Markets trimmed end-2024 cut expectations by 7bps to 43bps but keep a full cut for the November MPR decision. The combination of no cut and unchanged balance sheet intentions led to a bear flattening of the gilts curve, but no real movement in the GBP.**
- **Gov Bailey restated that they "need to be careful not to cut too fast or by too much". We expect the BoE to cut twice more this year, by 25bps at each of the November and December meetings, followed by 125bps through 2025. Today's decision doesn't influence this view either way, though we generally see additional 2025 cuts as more likely than fewer.**

The BoE didn't shake things up today, choosing to keep its policy rate unchanged at 5.00% and its pace of balance sheet reduction steady at £100bn per annum; this was as we and the vast majority of economists predicted (even after the Fed's big cut). There were no significant changes to the bank's decision statement that stuck to a limited forward guidance approach, and the read of economic conditions is by and large a bland update of recent developments. We see the BoE cutting 25bps at each of its November and December meetings, followed by 125bps in easing throughout 2025 spread out roughly once-a-quarter to 3.25%.

The combination of no cut (against marginal bets in markets), a slightly more hawkish 8–1 vote split, no real nod to a November cut, and no change to balance sheet reduction plans prompted gilts to bear flatten and the GBP to only briefly strengthen. Markets were keenly focused on possible changes to the BoE's 'QT' pace given a small risk of a larger reduction target that would involve a bigger amount of gilt sales (instead of a passive roll off). Had that been the case, it would have likely led to a more even performance between the short and the long-end of the gilts curve.

At writing (8.15ET) 2s are up 6bps and 10s are up 4bps—and note that over this period US 2s are on net unchanged and 10s are up 2bps. November meeting pricing sits around 27bps in implied cuts, and totals 43bps by December, representing a 7bps trimming of priced in cuts. We think is a bit excessive of a reduction in cut bets but may reflect the market's read that the BoE is due to act more cautiously. The GBP briefly popped higher but is stuck around the 1.33 level thanks to a pre-announcement gain of 0.6% on the day.

Simply put, "in the absence of material developments, a gradual approach to removing policy restraint remains appropriate" according to the statement. Since the BoE's August 1st 25bps rate cut, the two CPI and two jobs/wage reports (among others) have evolved relatively in line with the Monetary Policy Report's projections published last month. Services inflation slightly undershot, but not dramatically and "remaining elevated at 5.6% in August", while wage growth ex bonus held high at 5.4% and 5.1% in June and July, respectively. GDP unexpectedly failed to grow in July, but it does not represent enough evidence to counteract the better-than-expected positive momentum for the UK economy in 2024.

After a tight 5–4 cut-hold vote split at the August decision—when, notably, Chief Economist Pill preferred no change—the bar for a back-to-back cut today was high, with the BoE's MPR noting last month that they "have to be careful not to cut interest rates too much or too quickly", a phrase that was repeated today by Gov Bailey to the BBC. Our interpretation of the August decision was that the BoE was going to take stock once a quarter, on the occasion of the MPR release, to cut rates, similarly to the ECB (where a rate cut in October lines up with a new forecast round).

Today's 8–1 hold-cut vote split may have been a bit more hawkish than some expected, as Dep Gov Ramsden was seen as possibly voting alongside top dove Dhingra. The latter voting for more easing today should not surprise (she has wanted rate cuts since February), so in a way this morning's decision is a very strong consensus. We wouldn't read too much from this vote split for implications for the November announcement. By then we should have stronger evidence that upside inflation pressures (e.g. significant overshoots in wages and GDP growth) have not materialized and policy needs to become less restrictive lest the BoE risks an undershoot in inflation amid well below trend growth.