

Contributors

Juan Manuel Herrera

Senior Economist/Strategist

Scotiabank GBM

+44.207.826.5654

juanmanuel.herrera@scotiabank.com

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

September 19, 2024

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.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed in this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.