

# Bank of England Review

## Sticking to gradual

- **The BoE cut the Bank Rate by 25bp to 4.25% as expected.**
- **The vote split showed a surprisingly divided MPC with the statement tilting towards a hawkish bias. However, we do not see this as a broad shift in sentiment within the MPC.**
- **The statement revealed that BoE still favours a “gradual” and “careful” approach to easing monetary policy whilst highlighting elevated uncertainty.**
- **UK yields rose and EUR/GBP fell as markets had anticipated a dovish twist.**

As expected, the Bank of England (BoE) decided to cut the Bank Rate by 25bp to 4.25% today. The vote split highlighted a very divided MPC with 5 members voting for a 25bp cut, Dhingra and Taylor voting for a 50bp cut and Pill and Mann voting for an unchanged decision.

The BoE retained its previous guidance noting that “*a gradual and careful approach to the further withdrawal of monetary policy restraint is appropriate*”. The BoE likewise kept the wording that “*monetary policy will need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term have dissipated further*”. The hawkish twist came from the majority camp where three members including Bailey noted that they saw the decision as finely balanced between a cut and a hold. On projections, the BoE lowered its inflation forecast across the entire forecast period ending at 1.9% in 2028 but largely reflecting lower energy prices. Similarly, unemployment was revised upwards despite conditioning on a rate path that was lower than the one used back in February. The growth outlook was left largely unchanged. We suspect that the MPC will wait for April inflation and results from the April wage negotiations to deliver a firmer guidance.

Overall, we think the communication today supports our call of a continuous gradual approach to the cutting cycle with the BoE highlighting the wide outcome space and minimal changes to its growth forecast.

**Rates.** Gilt yields moved higher across the board on the lack of dovish guidance twist. Markets price 5p worth of cuts for May and around 60bp by YE 2025, cf. the margin table. We highlight the potential for BoE to deliver more easing in 2025 than what we currently expect.

**FX.** EUR/GBP ended the meeting lower with the BoE sticking to the notion of a gradual cutting cycle. More broadly, while we see domestic factors as GBP positives, we think the global investment environment will be in the driver’s seat for EUR/GBP in the coming months. An investment environment characterised by elevated uncertainty, widening credit spreads and a positive correlation to a USD negative environment, in our view, favours a weaker GBP. We therefore stay positive on EUR/GBP.

Chart 1. BoE market pricing

BoE market pricing, bp	Acc.	Incr.
19/06/2025	-6	-6
07/08/2025	-24	-18
18/09/2025	-38	-14
06/11/2025	-54	-16
18/12/2025	-62	-8
<b>31/12/2025</b>	<b>-62</b>	
<b>31/12/2026</b>	<b>-82</b>	

Source: Macrobond Financial

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