

Bank of England Preview

More disinflation needed for divided MPC to cut again

- We expect the Bank of England to keep the Bank Rate at 3.75% in line with consensus and market pricing.
- Data published through January has come in on the hawkish side
- With a divided MPC, we will need more disinflationary signs before we get the final rate cut in April.

We expect the Bank of England (BoE) to keep the Bank Rate unchanged at 3.75% on Thursday 5 February, which is also completely priced in by investors. At the December meeting, the MPC cut rates by a narrow 5-4 vote. This suggests, we will need to see more disinflation and further cooling in the labour market before the majority will vote for another cut. At this meeting, we expect a large majority to vote for hold.

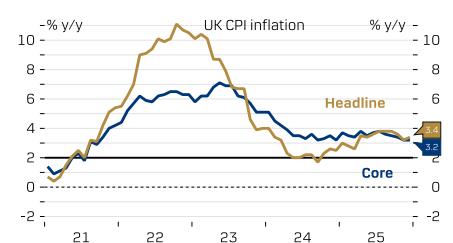
During recent weeks, data has come in slightly to the hawkish side. The economy picked up some speed in November with m/m GDP-growth surprisingly strong at 0.3%, which follows an otherwise disappointing H2 and January PMIs suggest a strong start to the year, with composite PMI at the highest level since spring 2024. Details in the survey suggest, labour market cooling is continuing and inflation pressures not subsiding. That said, inflation has been lower than pencilled into the November Monetary policy report, with two of the recent four inflation prints softer than consensus. In December, CPI inflation increased to 3.4%, which was more than expected. Core inflation was unchanged at 3.2%, though.

On the labour market, job losses accelerated in December with a 42K decline. The decline in previous months has however been less steep than originally measured. Like inflation, wage growth has headed lower but remains elevated with average earnings (excluding bonus) at 4.5% in November down from close to 6% in early 2025. It will be interesting to see, how the BoE weighs recent data into its new forecasts.

BoE call. At the December meeting, we saw some recognition of the recent disinflationary tendencies, also from the hawkish side of the isle, particularly Greene. That said, we think more disinflationary momentum is needed as rates are closing in on neutral and we call for the next and final rate cut in April. We think recent data has supported this call but continue to see the risk skewed for a second cut during the remainder of 2026.

Market reaction. Boring BoE meetings are rare, and the updated economic outlook will also be interesting. That said, nothing suggests this meeting should be a significant market mover. Political noise can easily cause choppy UK markets, though, as we saw it last week, when Greater Manchester mayor Andy Burnham, who has got a radically different fiscal vision for the UK, reached out for a seat in parliament after Andrew Gwynne stepped down. The Labour Party blocked Burnham, a potential rival for PM Starmer, but it highlights how the fiscal position of the UK can easily become a market theme again this year.

Inflation is edging lower



Source: ONS, Macrobond

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Ad hoc

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