16. December 2024

Bank of England Preview

Christmas pause in cutting cycle

- **We expect the Bank of England (BoE) to keep the Bank Rate unchanged at 4.75% on Thursday 19 December in line with consensus and market pricing.**
- **Data has broadly been in line with the BoE's expectations, warranting a continued signalling of only a gradual approach to monetary policy easing.**
- **We expect the reaction in EUR/GBP to be rather muted with risks tilted to the topside.**

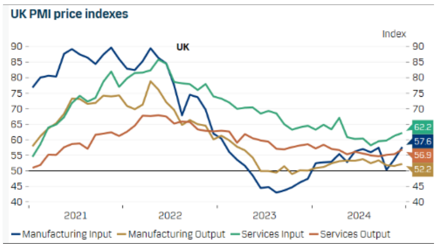
We expect the Bank of England (BoE) to keep the Bank Rate unchanged at 4.75% on Thursday 19 December in line with consensus and market pricing. We expect the vote split to be 8-1 with the majority voting for an unchanged decision and Dhingra voting for a 25bp cut. Note, this meeting will not include updated projections nor a press conference following the release of the statement.

Since the last monetary policy decision in November, data has broadly been in line with the MPCs November forecasts. Headline inflation has been slightly stronger than expected but importantly service inflation was in line with expectations. Similarly, private sector wage growth matched expectations printing at 4.8% y/y in the three months to September but with more apparent loosening evident in the labour market. While the disinflationary process is broadly on track, topside risks are evident in the latest PMI surveys only further amplified by the expansionary fiscal stance. Growth has been slightly weaker than expected in Q3 and with downside risks to the Q4 growth outlook. We note that we will receive a string of key data releases just ahead of the meeting on Thursday. The labour market report for October/November is published on Tuesday 17 December and November inflation data the day prior to the meeting on Wednesday 18 December. While we do not expect the incoming data this week to move the needle for the December meeting it will likely prove pivotal in terms of the monetary policy outlook in 2025.

BoE call. In 2025, we expect cuts at every meeting starting in February and until H2 2025 where we pencil in a slow-down in the easing pace to only quarterly cuts. This leaves the Bank Rate at 3.25% by YE 2025, which is lower than markets are expecting. We do however see the risk of the only gradual approach continuing in Q1 with a pause at the March meeting. Until data sufficiently warrants it, we think the BoE will be on steady course pausing at the meeting this week with service inflation and wage growth still elevated.

FX. We expect the market reaction to be rather muted upon announcement, barring any notable surprise in CPI on Wednesday altering the guidance. On balance, we tilt towards a dovish twist, which does suggest some slight EUR/GBP topside following the release of the statement. More broadly, we expect EUR/GBP to move lower in the coming quarters driven by BoE lagging peers in an easing cycle for the time being, UK economic outperformance and tight credit spreads. The key risk is more forceful policy easing from the BoE.

Chart 1. PMIs signal still elevated price pressures



Source: S&P PMI, Macrobond Financial

Analyst, UK Research
Kirstine Kundby-Nielsen
+45 45 14 15 29
kigrn@danskebank.dk

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank').

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and regulated by the Danish Financial Services Authority (Finanstilsynet). Danske Bank is authorised by the Prudential Regulation Authority in the UK. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

Danske Bank's research reports are prepared in accordance with the recommendations of Capital Market Denmark.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from, and do not report to, other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

None

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research has been prepared by Danske Bank A/S. It is provided for informational purposes only and should not be considered investment, legal or tax advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

This research report has been prepared independently and solely on the basis of publicly available information that Danske Bank A/S considers to be reliable but Danske Bank A/S has not independently verified the contents hereof. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or reasonableness of the information, opinions and projections contained in this research report and Danske Bank A/S, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts and reflect their opinion as of the date hereof. These opinions are subject to change and Danske Bank A/S does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom (see separate disclaimer below) and retail customers in the European Economic Area as defined by Directive 2014/65/EU.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/S, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank A/S is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank A/S who have prepared this research report are not registered or qualified as research analysts with the New York Stock Exchange or Financial Industry Regulatory Authority but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Disclaimer related to distribution in the United Kingdom

In the United Kingdom, this document is for distribution only to (I) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the 'Order'); (II) high net worth entities falling within article 49(2)(a) to (d) of the Order; or (III) persons who are an elective professional client or a per se professional client under Chapter 3 of the FCA Conduct of Business Sourcebook (all such persons together being referred to as 'Relevant Persons'). In the United Kingdom, this document is directed only at Relevant Persons, and other persons should not act or rely on this document or any of its contents.

Disclaimer related to distribution in the European Economic Area

This document is being distributed to and is directed only at persons in member states of the European Economic Area ('EEA') who are 'Qualified Investors' within the meaning of Article 2(e) of the Prospectus Regulation (Regulation (EU) 2017/1129) ('Qualified Investors'). Any person in the EEA who receives this document will be deemed to have represented and agreed that it is a Qualified Investor. Any such recipient will also be deemed to have represented and agreed that it has not received this document on behalf of persons in the EEA other than Qualified Investors or persons in the UK and member states (where equivalent legislation exists) for whom the investor has authority to make decisions on a wholly discretionary basis. Danske Bank A/S will rely on the truth and accuracy of the foregoing representations and agreements. Any person in the EEA who is not a Qualified Investor should not act or rely on this document or any of its contents.

Report completed: 16 December 2024 at 16:00 CET

Report disseminated: 16 December 2024 at 16:15 CET