

20. June 2024

Bank of England Review

August rate cut in play

- At today's monetary policy meeting the BoE left the Bank Rate unchanged at 5.25% as widely expected.
- As we expected, the BoE retained much of its previous guidance but delivered a slight dovish twist, laying the groundwork for an August cut.
- Gilt yields tracked lower and EUR/GBP moved higher on the dovish twist, but overall the market reaction has been fairly muted.

As expected, the Bank of England (BoE) decided to keep the Bank Rate unchanged at 5.25%. The vote split was unchanged since the May meeting with 7 members voting for an unchanged decision and Dhingra and Ramsden voting for a cut.

The BoE stuck to its previous guidance in its statement noting that *"monetary policy could remain restrictive even if Bank Rate were to be reduced, given that it was starting from an already restrictive level"* and *"the Committee will keep under review for how long Bank Rate should be maintained at its current level"*. The BoE downplayed the recent topside surprise to service inflation noting that it was partly due to annual price adjustments and volatile components. Likewise, the division in the "unchanged" camp has become more evident. The hawkish members noted that *"more evidence of diminishing inflation persistence was needed before reducing the degree of monetary policy restrictiveness"* whereas the other members noted that *"the policy decision at this meeting was finely balanced"*. We think this opens the door for a shift towards a majority voting for a cut at the August meeting.

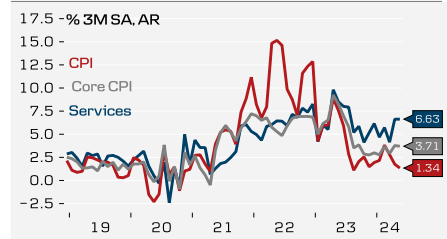
Before the next meeting on 1 August, we get a limited amount of data. Namely one jobs report for May/June and the inflation report for June. We expect the data releases to show further signs easing inflationary pressures and wage growth to level off, leaving the BoE comfortable enough to opt for a rate cut at the August meeting. Risks are however to a later start to the cutting cycle if we get a topside surprise to especially service inflation.

Rates. 2Y Gilt yields moved lower on the statement but overall, the reaction in rates markets was fairly muted. Markets shifted towards a front-loading of cuts with 16bp now priced for the August meeting.

FX. Following the release of the statement, EUR/GBP moved higher on the dovish twist from the statement. Overall, we see relative rates as a negative for GBP but note with risks to both growth and inflation tilted to the topside, this leaves a more challenging backdrop for an impending BoE cutting cycle. By extension and combined with the political uncertainty in France, this also acts as a downside risk to our EUR/GBP forecast of 0.88 in 6-12 months.

Our call. We continue to expect the BoE to deliver the first cut of 25bp in August with risks skewed towards a later start to a cutting cycle. We subsequently expect a 25bp cut in November, totalling 50bp of cuts for 2024. Markets are pricing 50bp for the remainder of the year with the first 25bp cut fully priced by September.

Chart 1. Keep an eye out for service inflation



Source: ONS, Macrobond

Analyst, UK Research
Kirstine Kundby-Nielsen
+45 45 14 15 29
kigm@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.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank A/S's prior written consent.

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: 20 June 2024 at 14:05 CET

Report disseminated: 20 June 2024 at 15:15 CET