16. September 2024

Bank of England Preview

Proceeding with caution

- **We expect the Bank of England (BoE) to keep the Bank Rate unchanged at 5.00% on 19 September in line with consensus and market pricing.**
- **Overall, we expect the BoE to stick to a cautious language and deliver a dovish twist to its communication.**
- **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 5.00% on 19 September in line with consensus. Markets currently price 5bp worth of cuts for the meeting. We expect the vote split to be 7-2 with the majority voting for an unchanged decision and Ramsden and Dhingra voting for a cut. Note, this meeting will not include updated projections nor a press conference.

Since the last monetary policy decision in August, data has been to the weak side of expectations across both inflation and growth while labour market data has been more of a mixed bag. Growth was slightly weaker than expected in Q2 at 0.6% q/q (BoE forecast 0.7%) and preliminary monthly GDP numbers indicate that growth will undershoot the Q3 forecast. Inflation was slightly weaker than expected in July at 2.2%y/y (BoE forecast: 2.4%) with services proving a large part of the downside surprise although mainly due to volatile components such as hotel prices. Note, that inflation for August is released the day before the meeting and will likely be instrumental for the guidance that we will receive.

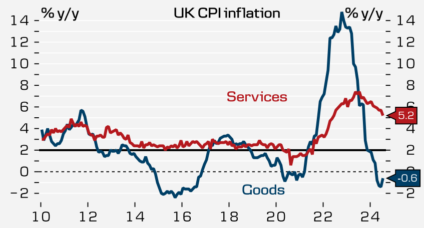
Communication from the MPC has been limited since the last meeting with speeches from Bailey at Jackson Hole and the hawkish camp including Mann and Pill. Bailey struck a more cautious tone noting that "*We are not yet back to target on a sustained basis*", "*policy setting will ned to remain restrictive for sufficiently long*" and that "*the course will therefore be a steady one*." Until data sufficiently warrants it, we think the BoE will be on steady course pausing at the September and December meeting this year with service inflation and wage growth still elevated.

On QT, we expect the MPC to announce another GBP 100bn of quantitative tightening for the coming year starting October. Given the maturity profile, the largest part will stem from maturities (GBP 87bn) and to a much lesser extent from outright sales (GBP 13bn).

BoE call. We expect the BoE to deliver the next 25bp cut in November and for this to be the final cut this year This is less than markets expect (55bp by YE 2024). In 2025, we expect cuts at every meeting starting in February and until H2 2025 where we expect a step down to a quarterly pace. This leaves the Bank Rate at 3.25% by YE 2025 in line with market pricing.

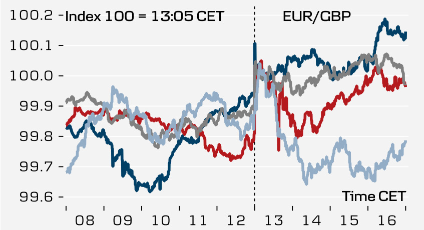
FX. We expect the market reaction to be rather muted upon announcement, barring any notable surprise in CPI on Wednesday altering the guidance. On balance, we tilt towards a dovish twist which does suggest some slight EUR/GBP topside following the release of the statement, as has been the case the past meetings (chart 2). That said, we more generally still expect EUR/GBP to continue its recent move lower driven by UK economic outperformance, BoE lagging peers in an easing cycle for the time being and tight credit spreads. The key risk is policy action from the BoE.

Chart 1. Service inflation remains a headache



Source: ONS, Macrobond Financial

Chart 2. EUR/GBP tends to move higher on BoE



Source: Bloomberg,, Macrobond Financial

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Expected updates

None

Date of first publication

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

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