

International Commentary — March 22, 2023

## Bank of England & Swiss National Bank Both Set to Hike

### Summary

- The Bank of England and Swiss National Bank both make monetary policy announcements tomorrow, March 23.
- Our base case is for the Bank of England to raise its policy rate 25 basis points to 4.25% this week, and then pause tightening. However, an unexpected quickening of inflation has added some uncertainty to that outlook. In the absence of a closer, or finely balanced, vote in favor of a rate hike, or a softening in the Bank of England's language, we will be inclined to adjust our outlook towards further tightening, an adjustment that could also be positive for the pound.
- In Switzerland, growth appears to be bottoming out and there has been an uptick in inflation. While Swiss markets have been dominated by banking sector strains over the past week, with some sense of relative calm restored and after the European Central Bank's rate hike last week, we still expect the Swiss National Bank to raise its policy rate by 50 basis points to 1.50% at this week's announcement.

Economist(s)

#### **Nick Bennenbroek**

International Economist | Wells Fargo Economics  
Nicholas.Bennenbroek@wellsfargo.com | 212-214-5636

#### **Jessica Guo**

Economic Analyst | Wells Fargo Economics  
Chuyue.Guo@wellsfargo.com | 212-214-1063

## Bank of England to Hike, But Will They Signal More To Come?

The Bank of England (BoE) announces its monetary policy decision on March 23, with market participants focused on both the size of any potential rate hike and any signals of potential future rate hikes. **Our base case has been for the Bank of England to hike its policy rate by 25 basis points to 4.25% at this week, a view with which we are still comfortable.** In recent days, as banking sector strains in the U.S. and Switzerland led to unsettled global markets, market discussion has centered on whether the Bank of England could even pause at this week's meeting. However, with those strains alleviated to a modest extent, further tightening now seems very likely at this week's meeting.

A more interesting question, in our view, is whether there will be any further tightening beyond this week's meeting. Our base case has been that this week's rate increase will be the last of the current cycle. The Bank of England's economic projections, which forecast a moderate U.K. recession and below-target inflation over the medium-term, are consistent with a pause from the Bank of England after this week. In our view, some key policymakers have also been quite balanced in their comments and are looking for opportunities to pivot towards a pause. For example, Governor Bailey recently said in early March, "I would caution against suggesting either that we are done with increasing Bank Rate, or that we will inevitably need to do more".

A moderate slowing in inflation over the last few months had opened the door slightly ajar, in our view, to a Bank of England pause. However, that pause has been thrown into doubt by the U.K. February CPI. U.K. inflation was an upside surprise, with the headline and core CPI unexpectedly quickening to 10.4% and 6.2% year-over-year, respectively. Today's Federal Reserve monetary policy decision may also be a factor—while it is not our base case, if the Fed does hike rates at its meeting, it could potentially make it easier for the Bank of England to deliver additional rate hikes after this week as well. Hence, while we are reasonably confident the BoE will hike rates 25 basis points this week, we will be scrutinizing the accompanying statement closely for signs of a pause (or not) going forward. In particular:

- The Bank of England voted 7-2 at its February meeting to hike rates, with the two dissents in favor of holding rates steady. We look for a closer vote split (6-3 or 5-4) as a hint that this week's hike could be the last. However, if the vote remains decisively in favor of a rate increase, more hikes could be forthcoming.
- The BoE also said it "will continue to monitor closely indications of persistent inflationary pressures, including the tightness of labor market conditions and the behavior of wage growth and services inflation. **If there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required.**" (Note: Our bolding). Should the BoE once again highlight these persistent inflationary risks, that would be a signal of further tightening in our view.

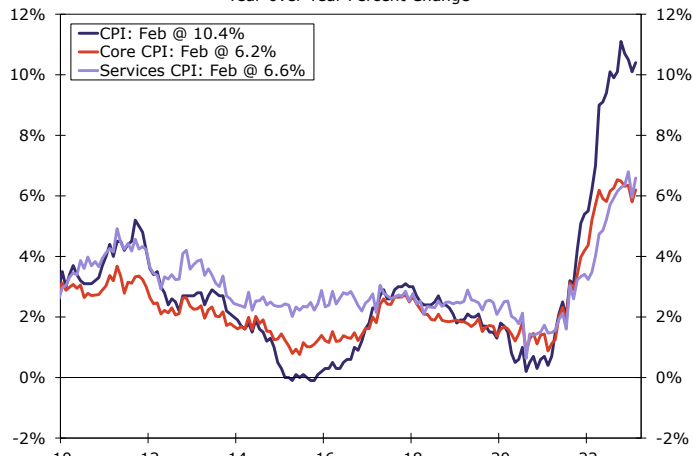
To sum up, we will be looking for a closer vote split and a softening in the Bank of England's language to support the view of a potential pause. In the absence of those elements, we will be inclined to adjust our outlook towards further Bank of England tightening, and adjustment that could also be positive for the pound.

## Swiss National Bank to Hike Despite Banking Sector Strains

Early last week, we [wrote](#) on the Swiss economy, highlighting that growth appears to be bottoming out while CPI inflation has shown a renewed uptick, as the trimmed mean CPI rose 2.3% year-over-year in February. This led us to anticipate a 50 basis point hike from the Swiss National Bank (SNB) at its March 23 announcement. Since then, Swiss markets have been dominated by banking sector strains, which ultimately saw authorities engineer a takeover of Credit Suisse by rival firm UBS. The deal led the SNB to provide 100 billion francs of liquidity support for UBS, and the Swiss government to provide a guarantee of 9 billion francs against potential losses. With those developments having restored some relative calm to markets (the emphasis here is very much on the relative rather than the calm), and with the European Central Bank having raised its policy rate 50 basis points last week, **we still expect the SNB to raise its policy rate by 50 basis points to 1.50% at this week's meeting.** Moreover, while Swiss growth could be softer than previously expected, CPI inflation will likely remain mildly elevated above the central bank's 2% inflation target for the time being. If the SNB does raise rates 50 basis points this week, even in the context of recent market events, we believe it will also deliver a 25 basis point rate hike at its June meeting amid what we expect will be calmer markets conditions.

### U.K. Consumer Prices

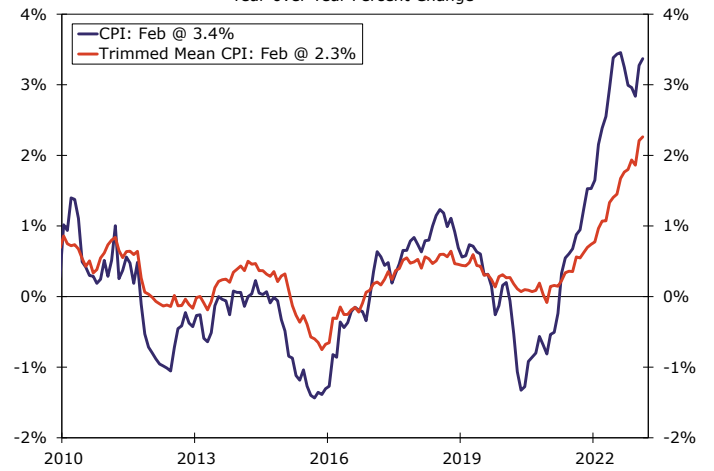
Year-over-Year Percent Change



Source: Datastream and Wells Fargo Economics

### Swiss Consumer Prices

Year-over-Year Percent Change



Source: Datastream and Wells Fargo Economics

**Subscription Information**

To subscribe please visit: [www.wellsfargo.com/economicsemail](http://www.wellsfargo.com/economicsemail)

Via The Bloomberg Professional Services at WFRE

**Economics Group**

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Seery	Economist	332-204-0693	Shannon.Seery@wellsfargo.com
Nicole Cervi	Economic Analyst	704-410-3059	Nicole.Cervi@wellsfargo.com
Jessica Guo	Economic Analyst	212-214-1063	Jessica.Guo@wellsfargo.com
Karl Vesely	Economic Analyst	704-410-2911	Karl.Vesely@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	704-410-1437	Jeremiah.J.Kohl@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

## Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. ("WFBNA"). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation offer or solicitation with respect to the purchase or sale of any security or other financial product nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report. The views and opinions expressed in this report are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company. © 2023 Wells Fargo Bank, N.A.

### Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority ("FCA"). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE