7 November 2024

Bank of England Review

Gradual easing supports a stronger GBP

- **At today's monetary policy meeting the BoE cut the Bank Rate by 25bp to 4.75%, as was widely expected.**
- **In line with our view, the BoE delivered a hawkish twist to its guidance emphasising their gradual approach to reducing the restrictiveness of monetary policy. We think this supports our base case of the next cut coming in February.**
- **The market reaction was modest with Gilt yields tracking slightly higher and EUR/GBP moving lower.**

As expected, the Bank of England (BoE) decided to cut the Bank Rate by 25bp to 4.75%. The vote split was 8-1 in line with our expectation, with the majority of members voting for a cut and hawk Mann voting for an unchanged decision.

The BoE retained much of its previous guidance noting that "*a gradual approach to removing policy restraint remains appropriate*". From the minutes it was evident that this "gradual approach" increasingly is becoming the consensus view within the MPC. In line with our expectation the BoE revised its inflation and growth forecast higher following the fiscal announcement last week, which delivered a notably more expansive fiscal stance than assumed in the latest round of BoE forecasts from August. The BoE now sees CPI at 2.7% y/y (prev. 2.2%) and GDP at 1.7% y/y (prev. 0.9%) in Q4 2025. While we still think only a gradual cutting cycle is warranted, amid the inflationary boost from the fiscal policy announced, we highlight that the new forecasts were done with a market implied Bank Rate path from prior to the Budget announcement. This is important as this path was notably lower than current pricing, which in turn means that the upward revisions above should be taken with a pinch of salt.

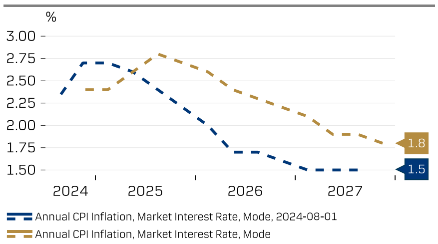
Overall, we think the communication today supports our call of a more gradual approach to the cutting cycle. We expect the next 25bp cut in February with the Bank Rate ending the year at 4.75% in 2024 and 3.25% in 2025.

Rates. Gilt yields initially moved higher across the board on the hawkish twist to the statement but partly retraced the move during the press conference – also aided by the global fixed income rally. Overall, the UK-specific reaction in rates markets was muted. Markets price 5bp worth of cuts for December and 65bp by YE 2025. We still favour being paid in the very short-end of the Sonia-curve but highlight the potential for the BoE to deliver more easing in 2025 than currently priced.

FX. EUR/GBP moved lower on the announcement on the notion of a gradual cutting cycle. The guidance delivered today highlights the more cautious approach of the BoE, which supports our case of a continued move lower in EUR/GBP. This is further amplified by UK economic outperformance and tight credit spreads. The key risk is a soft BoE.

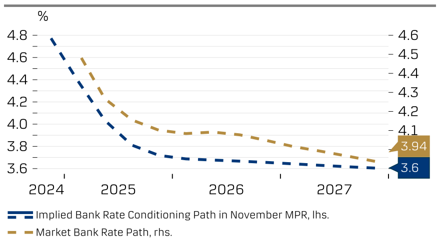
Our call. We expect the BoE to remain on hold at the December meeting and maintain its "gradual approach". In 2025, we expect cuts at every meeting starting in February and until H2 2025 where we expect a step down to a quarterly pace. This leaves the Bank Rate at 3.25% by YE 2025.

Upward revisions to inflation and GDP forecasts



Source: Bank of England, Macrobond Financial

Markets have priced in fewer cuts since the Autumn statement



Source: Bank of England, Macrobond Financial

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