

International Commentary — August 5, 2021

Bank of England's Subdued Signal of Future Tightening

Summary

- The Bank of England (BoE) held monetary policy steady at today's announcement, but sent a subdued signal of future policy tightening in its accompanying statement. Specifically, the BoE said some modest tightening of monetary policy over the forecast period is likely to be necessary if the economy evolves in lines with its projections. The BoE also indicated the threshold for unwinding its quantitative easing purchases was lower than previously.
- Those economic projections were revised higher in the central bank's August Inflation Report. The BoE kept its GDP growth forecast for 2021 unchanged, but lifted its forecasts for 2022 and 2023. The central bank also expects year-over-year CPI inflation to reach 4.0% by Q4-2021 but to gradually ease back to 2.0% by Q4-2023.
- Given a monetary policy announcement that was arguably modestly hawkish in tone, we have modestly brought forward our expected timing for the BoE's rate hike cycle. We now forecast an initial rate increase in Q3-2022 (compared to early 2023 previously), albeit by only 15 basis points to 0.25%. We also anticipate multiple rate hikes during 2023, and would expect further cumulative rate increases of 50-75 basis points during that year.

Economist(s)

Nick Bennenbroek

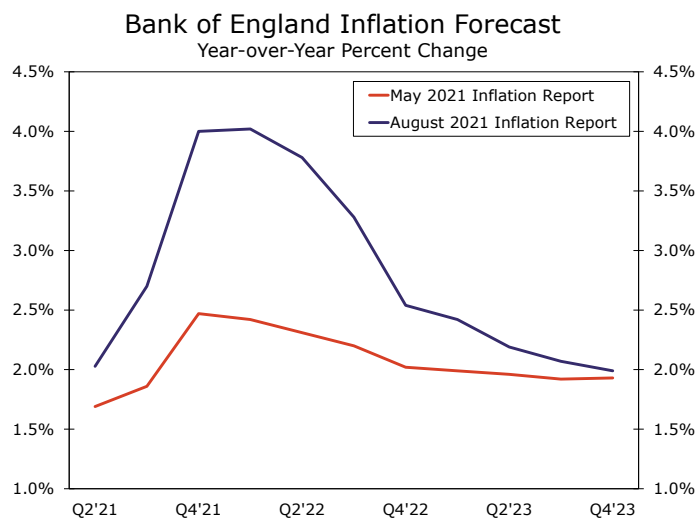
International Economist | Wells Fargo Securities, LLC
nicholas.bennenbroek@wellsfargo.com | 212-214-5636

Bank of England Happy to Hold Steady for Now

The Bank of England (BoE) announced its monetary policy decision today and, as widely expected, kept its policy stance unchanged. The BoE held its Bank Rate at 0.10% and also kept its asset purchase target at £895 billion. In addition, the central bank said that it would continue with its current £3.44 billion weekly pace of asset purchases between now and mid-December which, allowing for the reinvestment of currently held bonds that will mature in September, will see asset purchases finish on schedule by the end of this year. The decision to hold interest rates steady was unanimous, while there was only one dissent in favor of ending the asset purchase program early.

In addition to the BoE's monetary policy decision, the accompanying Inflation Report also included the central bank's latest economic projections. Those economic projections were relatively sturdy, reaffirming an expected GDP growth recovery and raising the central bank's CPI inflation forecast. For GDP growth the BoE maintained its 2021 forecast at 7.25%, while for 2022 it sees GDP growth of 6% (versus 5.75% previously) and for 2023 expects GDP growth of 1.5% (versus 1.25% previously).

The revisions to the central bank's CPI inflation forecast were even more stark. Looking at year-over-year changes, the Bank of England expects CPI inflation to spike to 4% by Q4-2021, before slowing later over the forecast horizon to 2.5% by Q4-2022 and 2.0% by Q4-2023.



Source: Bank of England and Wells Fargo Securities

Central Bank Sends Future Tightening Signal

While the Bank of England was happy to remain on hold for now, given the improving economic prospects and higher inflation forecast, its announcement did offer a subdued signal of future monetary tightening. Although policymakers on the Monetary Policy Committee do not appear to be excessively concerned about a spike in inflation they anticipate will be transient, they did say that:

"The Committee judges that, should the economy evolve broadly in line with the central projections in the August Monetary Policy Report, some modest tightening of monetary policy over the forecast period is likely to be necessary to be consistent with meeting the inflation target sustainably in the medium term."

Separately, the Bank of England offered guidance on when it might begin to unwind its quantitative easing purchases. While indicating that a decision to unwind would also be dependent on appropriate economic circumstances, the Bank of England said it could begin unwinding its quantitative easing by ceasing reinvestment of maturing assets when the Bank Rate reaches 0.50%, and might consider outright sales when the Bank Rate reaches 1.00%. This interest rate threshold to unwind quantitative easing is lower than previously signaled. That said, with the policy rate unlikely to reach even the 0.50% threshold until perhaps 2023, any unwinding of quantitative easing is clearly not an immediate issue.

Given a monetary policy announcement that was arguably modestly hawkish in tone, we have modestly brought forward our expected timing for the Bank of England's rate hike cycle. **We now forecast an initial rate increase in Q3-2022 (compared to early 2023 previously), albeit by only 15**

basis points in 0.25%. We expect the policy rate to remain steady in Q4-2022. In addition, while beyond our formal forecast horizon we anticipate multiple rate hikes during 2023, and would expect further cumulative rate increases of 50-75 basis points during that year.

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

The 2021 Annual Economic Outlook: *Aftershocks and Divergence in the Post-Pandemic Economy* is available at wellsfargo.com/economicoutlook

Via The Bloomberg Professional Services at WFRE

And for those with permission at research.wellsfargosecurities.com

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@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
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	International Economist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economist	(704) 410-1681	shannon.seery@wellsfargo.com
Hop Mathews	Economic Analyst	(704) 383-5312	hop.mathews@wellsfargo.com
Nicole Cervi	Economic Analyst	(704) 410-3059	nicole.cervi@wellsfargo.com
Sara Cotsakis	Economic Analyst	(704) 410-1437	sara.cotsakis@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 Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes this report directly and through affiliates including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. 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. Wells Fargo Bank, N.A. 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 Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

The information in this report has been obtained or derived from sources believed by Wells Fargo Securities, LLC to be reliable, but Wells Fargo Securities, LLC does not guarantee its accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or upon any opinions set forth herein. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sale of any security or other financial product or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company. © 2021 Wells Fargo Securities, LLC

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. 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 EEA, this report is distributed by WFSIL or 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