BoE Preview: September 2021

Statement/Minutes: https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2021/september-2021

Contents

MNI View: Votes to hike in 2021?

Tim Davis, 4 August

The September MPC meeting was supposed to be a bit of a placeholder meeting with the main focus on whether Huw Pill sided with those on the Committee who believed the necessary conditions for a hike had been met. However, it turned out to be one of the most market moving MPC meetings of the year.

The vote split was 7-2 with Ramsden joining Saunders in voting to immediately end QE – a base case only expected by Barclays – but this was not the most surprising element of the meeting. The focus has been on "Paragraph 65" from the Minutes which reads:

"All members in this group [of 7 who voted to maintain current policy] agreed that any future initial tightening of monetary policy should be implemented by an increase in Bank Rate, even if that tightening became appropriate before the end of the existing UK government bond asset purchase programme."

There has been widespread confusion as to why this paragraph was included. If only the first part of the paragraph was included, it would seem that the MPC was underlining the August sequencing review. However, the part of the comment referring to tightening before the end of the APF seems to be setting up the market for some potentially hawkish dissents on the Bank Rate later this year. Markets are now fully pricing a February hike and the market is pricing a good chance of three hikes through 2022 as a whole.

There are plenty of references in the Minutes and Monetary Policy Statement that are less hawkish – a reference to a "high option value" to waiting for more information for additional information. However, the downsides to growth seem to be largely being chalked up to supply constraints rather than a lack of demand. Furthermore, concern surrounding inflation persisting at a higher level for longer (even if its not domestically driven) seem to be playing more on the minds of some MPC members than had previously been assumed.

We also think it is significant that the following will be looked at for November's meeting:

"Key questions include how the economy will adjust to the closure of the furlough scheme at the end of September; the extent, impact and duration of any change in unemployment; as well as the degree and persistence of any difficulties in matching available jobs with workers. The Committee will review these, along with other, developments as part of its forthcoming forecast round ahead of the November Monetary Policy Report, which will also include its periodic assessment of the supply side of the economy."

What data will there be to assess the labour market this year?

So what data will be available to make decisions at meetings this year? Note that the furlough scheme is due to end at the end of September and there are over 1.5m workers still on some kind of furlough (of which 1m on partial furlough and around 0.5m on full furlough). There will be no official data on the reabsorption of these workers available at the November meeting so we will be very reliant upon survey data. There will be no official data available for September employment so things like the Agents' Survey, the REC Jobs Report and the employment component of the PMI surveys will be the main data to watch. We think it is unlikely there will be a lot of confidence on the MPC to hike purely based on these data, unless the periodic assessment of the supply side shows a much smaller output gap than previously assumed.

However, by the December data we will have two months of post-furlough HMRC experimental payroll data (three more releases than we currently have). These data already show that the number of employees has exceeded the pre-pandemic peak (although note that this does not take into account any estimation of self employed workers who have likely offset this increase). We will also have some visibility of whether there has been an early-winter pick up in Covid-19 cases, whether energy prices have stabilised at all and hopefully have a clearer idea of the evolution of inflation.

So we would not rule out a couple of MPC members potentially voting for hikes later this year, particularly if the furlough scheme rolls off as smoothly as the Bank's forecasts suggest. But there do appear to be a number of speedbumps the economy must clear in order to satisfy market pricing that now sees a February hike fully priced and a decent chance of three hikes by the end of 2022.

As an aside, we asked the question before the meeting as to how hawkish Pill was and whether he would join those in believing the necessary conditions for a hike had been met. The MPC agreed that this guidance was no longer relevant, so we still have no further idea as to his views. There will be much focus on his next speech.

There will also be focus on Governor Bailey's speech at the Society of Professional Economists Annual Dinner on Monday evening to see whether he pushes back on the market reaction to the meeting.

Summary of Analyst Views

- We have seen 5/18 analysts shift forward their expectation of the first rate hike in the aftermath of yesterday's MPC meeting.
- BNP, BofA, Deutsche and JP Morgan now all forecast the first hike in February/Q1-22. While TD Securities have shifted from the dovish end to the middle of the pack and now look for the first hike in August.
- The market is pricing in earlier hikes than sell side analysts forecast.
- Now 4/18 (from 0/18 pre-meeting) analysts look for first hike in Q1-22, 8/18 by Q2-22 (from 7/18), 13/18 by Q3-22 (from 11/18).
- In terms of the second hike, only BNP and JP Morgan expect it to come in Q3 (which if in August would mean the September gilt holdings would be the first to not be reinvested amounting to around GBP6bln).
- 8/18 analysts expect two hikes by the end of 2022 and a further three look for this in Feb23.
- A number of analysts still see the Bank's forecasts as overly optimistic particularly surrounding the labor market and the end of the furlough scheme, but see risks of an earlier move if the Bank's forecasts prove to be accurate.

Summary of Analyst Views (Sorted by Hawkish to Dovish); View changes in bold

Institution	Pre-September meeting	Post-September meeting
BNP	See outside chance of Pill joining Saunders to vote to end QE early. Expect 15bp hike in May, another 25bp in November and third hike in 2023.	**First hike in Feb22 (risks of earlier, not later). Further 25bp in Aug22, another 25bp in 2023 and another 25bp to 1.00% in H1-24. If 2021 hike, chance of 1% in 2023 "would be higher".**
JP Morgan	Saunders to dissent; possible but unlikely there is another dissenter. Look for first 15bp hike in 2Q-22 (from 4Q-22) with further 25bp hike in 1Q-23 when reinvestments cease.	**Bring forward first 15bp hike to Q1-22 with a second hike "pencilled in" for Q3-22. The Minutes read as if "creating space to potentially hike as soon as" Nov/Dec21.**
Deutsche	Expect 8-1 vote with Saunders dissenting. Continue to look for Aug 22 hike of 15bp (although only marginally in favour of Aug 22 over May 22).	**Expect first 15bp hike Feb22 "with risks now tilted marginally to a slightly later move (May-22)". Further 25bp hikes in Nov22, Feb24 with QE from 2023 onwards.**
Bank of America	Look for 8-1 vote with risk of Ramsden joining Saunders' dissent. First hike in May 2022, second in February 2023. Risks of a Feb 22 hike if utlity prices "hiked a large amount."	**Expect first 15bp hike in Feb22 but still see second hike in Feb23 (25bp to 0.50%). Think that the BOE will want to delay second hike so as not to begin QT until FY23/24.**
Goldman Sachs	Expect first 15bp hike in May22 then three 25bp hikes: Bank Rate at 0.50% in Q4-22, 0.75% in Q2-23 and 1.00% in Q4-23 with Bank Rate on hold and active gilt sales in 2024.	Risks skewed to "earlier liftoff" but base case unch: first 15bp hike in May22 then 25bp more in each of Q4-22, Q2-23, Q4-23 with Bank Rate on hold and active gilt sales in 2024.
RBC	Expect Saunders to be sole dissenter voting to curtail QE. Continue to look for 15bp hike in May 2022 and 25bp in Nov 2022.	Continue to expect 15bp in May22 and 25bp in Nov22 with a "view is that a 2021 Bank Rate hike remains unlikely" with post-furlough labour market reports only out in Dec.
HSBC	Expect 8-1 vote with Saunders sole dissenter. Pill to join "metters" in 5-4 split. Continue to expect first 15bp hike in May22 and 25bp hike in Nov22 with no votes for hike in 2021.	15bp in May22 and 25bp in Nov22 still expected but the risks "have risen in favour of an earlier move" although "e still think February is the earliest likely date for a move."
UBS	Look for 8-1 hike. Continue to expect 15bp hike in May22 and 25bp hike in Feb23 "with the risk skewed towards more hikes" if inflation turns out to be more persistent than exp.	Continue to expect 15bp hike in May22 with further 25bp in Feb23 with the risk skewed towards more hikes" if inflation turns out to be more persistent than exp.
TD Securities	"There are three identifiable hawks on the MPC now: Saunders, Ramsden, and Pill." Possible Saunders is joined by 1-2 others in dissent.	**Assuming "smooth conclusion" of furlough, expect 15bp hike in Aug22 and 25bp hike in Nov22 which will trigger an "organic reduction" in the BOE balance sheet.**
Berenberg*	First 15bp hike in Aug 22 but risks of hike "somewhat sooner". 25bp hike in Dec 22 opening door to start of passive QT in 2023.	Expect two hikes in 2022: 15bp hike in Aug22 and 25bp hike in Dec22. "However, the risks to this call are increasingly tilting towards a hike as soon as May."
Nomura	8-1 vote on QE with at least 5 members saying guidance has been met. First hike Aug22 with further 25bp hikes in Feb23 and Nov23. Feb23 hike alongside end of reinvestments.	View unch: first hike Aug22 with further hikes in Feb23 and Nov23. " Fully conscious of the risk" and that stronger costs and prices lead MPC "to act far earlier than we foresee."
Morgan Stanley	Expect 8-1 vote with Saunders dissent. Feb22 "hawkish signal" for single 2022 hike of 15bp in August. If furlough unwinds as BOE forecast May22 and Nov22 hikes.	Base case: First 15bp hike Aug22 as UnE rises to 5.1%, weaker wage pressure, withdrawal of Covid support and Apr22 NIC increase. BOE forecasts "consistent with 1H22 hike."
Société Générale	Saunders to dissent to reduce QE target by GBP45bln and "minor chance" Pill may join him. First hike 15bp hike Q3-22.	Continue to see first 15bp hike in Q3-22. "The key [to timing of the first hike] lies in the labour market in which we see only a temporary strengthening of wage growth"
ING	8-1 vote with Saunders the sole dissenter. First hike to be delivered in Nov22 with second hike in H2-23.	First hike likely in H2-22 "given the number of headwinds facing the economy this winter". Pencil in Nov22 but Aug22 "growing more likely". Still don't expect second hike until 2023.
UniCredit	Look for 8-1 vote with Saunders only dissenter. Still expect first hike in "early 2023..but the probability of a hike next year (ahead of the Fed) is rising."	Expect growth and inflaton to disappoint MPC forecasts which will delay first hike to late 2022/early 2023. But believe MPC "laying the ground" for 15bp hike "as soon as" Feb22.
Barclays	7-2 vote with Ramsden and Saunders voting for early end to QE. Central scenario "a status quo on rates and balance sheet" after 2021 but risk of 1-2 hikes in 2022.	"The current macro backdrop does not call for a hike" but "acknowledge that a scenario could transpire whereby the MPC is boxed into a corner and delivers a hike."
Pantheon	Expect 8-1 vote with Saunders the sole dissenter. Still expect "GDP growth to be weak enough for the MPC to wait until" H1-23 to raise the Bank Rate.	Base case first hike in "early 2023" as UnE / underemployment rise sharply combine with fiscal consolidation. If little labour market slack post-furlough possible MPC hike in Q1-22
Rabobank	Expect Pill to join "metters" camp. Inflation is driven by global supply and unusual comp of demand. "Reluctant" to forecast hike in 21/22 but Bank may "still decide to do so."	"the UK economy is likely to underperform the central bank's forecast. Even as inflation reaches an uncomfortably high rate" base case remains no hikes in 2021/22.

Source: Analyst previews and MNI

* Berenberg pre-meeting view from the August review

Analysts' Key Comments (A-Z) (View Changes in Headings)

Bank of America – First hike in Feb22 but still don't see second hike until Feb23

- "We read from the minutes more urgency, more concern about inflation and a desire for optionality.
- "The probability of a November and December hike has risen in our view. But whether the BoE takes that option depends on especially the Furlough data, which remains very uncertain. We do not yet feel confident the labour market will be consistent with a rate hike as soon as December. But we cannot ignore the urgency from the BoE."
- "We shift our call to a 15bp February 2022 rate hike from May 2022 previously, with a second 25bp hike in February 2023."
- "the BoE's use of 'Coming months' today referring to the period over which Furlough uncertainty would be resolved is not, we think, as hawkish as the market has assumed."
- "We find paragraph 65 tricky to interpret. It makes November live, but it's hard to say how live. We think there would be an extremely high bar to the BoE pressing the brake and accelerator at the same time (hiking Bank Rate and continuing QE). So high that we cannot see them doing it except in extreme circumstances. So we wonder if there is some element of miscommunication."
- "The market will likely now turn to considering scenarios like the BoE hiking twice before QE redemptions next summer, meaning QT begins then. We continue to think an earlier hike does not mean 'more', and struggle to see a meaningful probability of the BoE hiking three times by end-2022."
- "Ultimately the threshold for beginning QT (0.5%) we think means the BoE pauses rate hikes for a while until the QT is digested. We continue to expect QT to begin in fiscal 2023/24."

Barclays

- "By failing to reach a minimum level of consensus, we find the MPC's communication confusing and up to everyone's interpretation. How to explain, for instance, the statement attributed to the more dovish members of the MPC, acknowledging that if needed, rates could be hiked even before QE has reached its target sizes… we fail to understand the rationale of making such an over-technical statement."
- "While we continue to think that the current macro backdrop does not call for a hike, we acknowledge that a scenario could transpire whereby the MPC is boxed into a corner and delivers a hike through the smallest majority of votes. If the MPC then pulls through in line with market expectations, the prospects of quantitative tightening will add up to monetary and fiscal tightening and pose a possibly insurmountable challenge to the economy in 2023."

Berenberg

- "Policymakers are becoming increasingly concerned about the durability of inflation and could normalise policy earlier and at a faster pace than signalled as recently as the August Monetary Policy Report"
- A rate hike in early 2022 "seems unlikely, in our view. As growth momentum is slowing heading into autumn and amid rising risks, the BoE will probably err on the side of caution for a while yet and wait until mid-year before lifting rates for the first time – perhaps with some strong interim guidance that a sustained normalisation of policy is on the way."
- "We expect the first hike to come in August 2022 with two hikes likely in 2022. However, the risks to this call are increasingly tilting towards a hike as soon as May. We expect a second 25bp hike in December 2022 to take the Bank of England bank rate to 0.5% by end-2022."

BNP – Push forward 2022 hikes by a quarter to Feb22 and Aug22

- The Minutes "struck a decisively hawkish tone which points to an even earlier interest rate hike than we had previously anticipated."
- "We now think the first hike will come in February… And we think the risks are for an earlier hike, not later… we expect another hike in August, which would take Bank Rate to the 0.50% threshold above which the MPC will end APF re-investments. We think rate hikes will continue beyond that point, and expect another in 2023 and for 1% to be reached in the first half of 2024."
- "If the MPC were to hike this year, then the chances of this threshold [1% at which point active gilt sales are considered] being hit by end-2023 would be higher"
- BNP's previous forecast was for 15bp in May 2022, 25bp in November and a third hike in 2023.
- "The MPC appears to be viewing the current shock as a predominantly supply-driven one and as a result the shift in the MPC's rhetoric occurred even though it thinks GDP and the labour market have underperformed its expectations."
- Regarding the removal of the forward guidance on necessary/sufficient conditions for hikes: "Reading between the lines, we think this may be a nod to the fact that a majority of the MPC now think that the conditions for tightening have been met. Hence the debate is now about the timing of tightening rather than whether tightening is warranted in the first place."
- "We think that the labour market remains a crucial input into the timing of interest rate lift-off… some pick-up in unemployment [as furlough ends] – albeit modest – looks more likely. In that scenario, the MPC has said that it might take "somewhat longer" to assess labour market developments and as a result our base case is for the first rate hike to come in February [rather than this year]."
- "If unemployment does not rise materially following the end of the furlough scheme this month – the MPC's view – then the November or December meetings would be 'live', we think."

Deutsche Bank – Expect first hike Feb22 but risk of slightly later

- "The big news today was not the second dissent on the current QE program. It was the implicit revelation of the Bank's potentially more hawkish reaction function to rising inflation with concerns that excess inflation may be linger for a little while longer than previously anticipated."
- "We pull forward our expectations for rates lift off by six months. We now expect the first rate hike in Feb-22 (15bps), with risks now tilted marginally to a slightly later move (May-22). We see a second rate hike coming in Nov-22 (25bps). And a third rate hike in Feb-24 (25bps). We expect the MPC to commence QT from 2023 onwards"
- "Risk management considerations no longer had force... With the MPC dropping this line in their September policy statement, they have sent a clear and hawkish message that the Bank may be ready to turn the page on the pandemic sooner than we previously thought."
- "While we saw the case for lower growth and higher furloughed staff as potentially more concerning than the expected spike in inflation, the Bank has put more stock on other dimensions of the economic outlook – in particular, the outlook for inflation, judging that economic developments – on balance – may be more hawkish than dovish."
- "The MPC revealed more of its hand with regards to its tolerance around inflation. With inflation likely to remain "into 4%" for another couple of quarters, the fear of rising inflation expectations, and potentially more persistent inflation into 2022, may be harder for the majority of the MPC to digest than expected."
- "The MPC's supply update may just give the Bank enough ammunition for a hike"

Goldman Sachs

- "We maintain our baseline for the first hike in May 2022 on the back of more frictional unemployment post-furlough than the MPC expects, but now see risks skewed towards earlier liftoff."
- "We see three notable areas where the tone of the September MPC Statement and Minutes is more supportive of near-term monetary tightening than we had expected. Firstly, Ramsden joining Saunders to vote against a continuation of the QE programme; secondly, the broad agreement on optionality to hike before the end of the asset purchase programme implies that a hike before year-end is possible; and thirdly, the MPC noting that "some" developments since the last meeting strengthen the case for policy tightening."
- "We remain somewhat more concerned than the MPC on the slowing in growth momentum, given recent readings on monthly GDP and business surveys. Indeed, our forecast for Q3 GDP to increase 1.2% is substantially below the BoE's revised staff estimate of 2.1%. In addition, we expect a more disruptive end to the furlough scheme than the MPC's central scenario, with our projected unemployment rate moving up to 4.9% in Q4. Given these considerations, we maintain our baseline expectation for the first hike in May 2022, but now see risks skewed in the direction of earlier liftoff"

HSBC

- The MPC appear "to open the door to a rate rise by the end of this year, even while the BoE is injecting net stimulus into the economy via QE. Indeed, the committee now see CPI inflation remaining above 4% into Q2 2022, according to the minutes."
- "Still, the MPC said there was a high option value in waiting to see the impact of the end of the furlough scheme and other sources of uncertainty. We think that takes us to February, at the earliest."
- "We still think the BoE will raise Bank Rate by 15bps to 0.25% in May 2022, and then by 25bps to 0.50%. However, we note the risk that the first move could come sooner"
- "By the time of the BoE's 3 February meeting, we should have some idea of how [the unwind of the furlough scheme and Covid-19 through winter] has impacted demand, and whether inflation and supply pressures have begun to ease or remain intense. But we suspect the Committee will want to wait a little longer, hence our forecast for May."
- "The MPC will publish a review of supply in the November Monetary Policy Report. This will shed more light on the MPC's views on the impact of the pandemic on productivity and the labour market. Given recent developments, it may conclude that the equilibrium unemployment rate (u*) has risen a little, which would support the case for tightening."

JP Morgan – Bring forward hikes by a quarter to 1Q-22 and 3Q-22

- "MPC placed surprisingly little weight on recent growth disappointments at its September meeting, citing weak supply as the underlying driver and brushing off the significance of a growth downgrade at the next meeting… Instead the focus was firmly on the rapidly tightening labor market and lingering high inflation."
- "The MPC will have known that market pricing had drifted into 1Q22 ahead of the meeting today. And although this was not a forecast meeting which required the MPC to be very specific on timing, some of the language it has chosen to use appears designed to strength expectations for a February hike. We now see that as likely barring a material downside growth surprise driven more clearly by weaker demand."
- "Bond purchases aren't scheduled to finish until year end, and so this reads as though the committee is creating space to potentially hike as soon as November or December, something which we have previously attached a low probability to"
- "On referring to uncertainties regarding the impact of the end of the furlough scheme, the MPC stated that "there was a high option value in waiting…before deciding if and when a tightening in monetary policy". This reads a little as if the case for tightening is already evident, but the MPC just wants to wait for confirmation that the disruption from the end of the furlough scheme will be minimal (which we have argued looks increasingly likely) before finally acting on rates."
- "We bring forward our call for the first (15bp) rate increase by one quarter to 1Q22, and pencil a second (25bp) hike for 3Q22."

ING

- "The latest Bank of England statement will only add to the market's sense that a rate hike is growing nearer. But it's clear the committee is divided on how much of an issue rising inflation poses."
- "Given the number of headwinds facing the economy this winter, we think a rate hike is unlikely until the second half of 2022 - later than investors are expecting"
- "We saw two votes to end QE early… what we can probably gleam from this is that we will start to see the hawks voting for interest rate rises fairly soon, and potentially as soon as November"
- "Ultimately the timing of that first hike will likely come down to wage growth. Probably the most important thing the Bank said in its latest statement is that it believes wage growth to be above pre-pandemic rates. The question though is whether this broadens out from the narrow areas that are currently being heavily impacted by staff shortages."
- "We feel that a rate hike in the second half of next year is more likely than the first. Until now we have penciled in a November move, though the snippets of hawkishness in the latest statement suggest August is growing more likely."
- "We think the second 'full' hike is unlikely until 2023. At that point a passive reduction in the balance sheet will begin, by ending reinvestments linked to maturing bonds."

Morgan Stanley

- "A hawkish meeting in three respects. First, Ramsden… joined Saunders in voting for QE curtailment. Second, the guidance on modest tightening was strengthened, with the MPC noting that recent developments strengthened the case for action. Third… the seven members who voted to maintain QE explicitly flagged that they could vote for a Bank Rate before QE completes, i.e. in November. However, such action looks very low probability, in our view, requiring red hot labour market data, which provide unambiguous evidence of a smooth transition off furlough. On our forecasts, we see it as still implausible in December, when the MPC will have labour market data for October."
- "We think the path of policy depends on the economy, and in particular the labour market post-furlough, with MPC forecasts consistent with a 1H22 hike."
- "In our more dovish base case, we expect a rise in unemployment on wind-up from 4.5% in 3Q21 to 5.1% in 4Q21, given frictions in matching workers and jobs. Weaker wage pressures as slack increases, headwinds from withdrawal of Covid support and the April 2022 labour tax rises imply weaker growth and lower inflation - back to target in 2H22, a full year before the MPC, on our forecasts. This weaker outlook underpins our more dovish view that the Bank will not hike until August 2022,and then only by 15bps"

Nomura

- "We're fully conscious of the risk to our view (August 2022 first hike) that the sentiment echoed by the MPC today is seen playing out in stronger costs and prices which leads them to act far earlier than we foresee. At present, it feels like the options for the MPC are somewhat bimodal."
- "The MPC's previous formal guidance of 'no tightening until clear progress has been made on spare capacity and achieving the inflation target' has been effectively replaced by what

appears to be a more informal view that some tightening is required over the forecast horizon"

- "At the margin at least it seems from the sentiment in today's minutes the Bank is erring on the side of being more, not less, concerned about the implications for prices in the medium-term – notwithstanding the Bank admitting that the pace of global recovery is slowing and the downward revisions it announced to the Bank's Q3 GDP growth view."
- "We are still concerned about the risk that higher energy prices, lower confidence and rising virus case numbers could yet scupper the nascent economic recovery, and that in such a situation with the PMIs back below 50 and output contracting again any emergent window of opportunity for tighter policy may yet disappear as fast as it arrived. In those circumstances the negative pull of output on future inflation may yet outweigh the positive second-round effects on underlying inflation and wages"

Pantheon

- "In a best-case scenario in which the furlough scheme is wound down at the end of this month and little labour market slack is unleashed, it is possible that the Committee will hike Bank Rate in Q1"
- "With the recovery now sluggish and businesses facing higher employment taxes next year, we expect the unemployment rate to rise to 5% in Q4, from 4.5% in Q3, and—just as importantly—underemployment to rise sharply, as people return to their former employers but on fewer hours than they would like. In our view, the outlook for building labour market slack and a tough fiscal consolidation suggests that the MPC will be able to wait until early 2023 to raise Bank Rate again."

Rabobank

- "The UK economy is likely to underperform the central bank's forecast. Even as inflation reaches an uncomfortably high rate, and may even be stickier than thought, our base case remains there won't be a rate hike this year or next"
- "The MPC added today that "some developments during the intervening period appear to have strengthened that case, although considerable uncertainties remain" (emphasis is ours). The market perceives this as hawkish relative to what it expected to hear. We, however, regard the explicit mention of "considerable uncertainties" as a very important caveat to be used in later meetings"
- On the guidance that Bank Rate could be increased ahead of the end of the APF: "This signals an early rate hike can't be ruled out, and explicitly allows for a very brief gap between the latest gilt purchase and a first rate hike."
- "Whilst this is all fodder for hawks, we remain reluctant to buy into the central bank's warnings… The rest of the minutes, however, convey a rather 'stagflationary' feeling, even though we would probably never find this word in the Bank's communication."

RBC

- On the paragraph about potential to hike before APF programme is complete: “What we assume instead is that an attempted message around sequencing was lost in poor wording. The market saw no such subtleties, however.”
- "Our view is that a 2021 Bank Rate hike remains unlikely. The first ONS labour market report covering the post- furlough period for example won’t be available until December 14th and, amidst already slowing recovery, there are a number of potential headwinds to growth coming over months as government fiscal support is withdrawn and supply constraints bite.”
- “On Monday (Sept 27th), Governor Bailey will address the Society of Professional Economists ’ annual dinner. We think that will be worth paying attention to for any possibility that he might try use that speech to ‘walk back’ some of the messaging from [yesterday’s] meeting.”
- “The market is pricing in rate hikes even faster than our profile of May22 and Nov22 – which appeared quite hawkish just a few weeks ago”

Societe Generale

- “The MPC is getting more worried that a transitory inflation burst might become stronger and longer-lasting. We still think that the MPC’s broad reasoning is correct. The key lies in the labour market in which we see only a temporary strengthening of wage growth.”
- Still see first hike in Q3-22.
- Regarding the paragraph discussing tightening ahead of the end of the APF “this implies that members still see a rate hike as a possibility in the next few months, even though earlier in the minutes, they highlight fresh uncertainty about the impact of the end of the furlough scheme and say the data on that won't be available at the next (November) meeting. So theoretically they could move at the December meeting…. Not only is this a very odd signal on the timing… but it also bizarre in that it entertains the possibility of starting to tighten using the interest rate tool whilst simultaneously continuing to ease using the asset purchase tool.”

TD Securities – Now look for Aug22 and Nov22 hikes (previously first hike May23)

- “The Summary clearly signalled that a debate on when to hike rates is starting, with the MPC noting that arguments for monetary tightening had strengthened since August. We expect this momentum to build through the rest of the year, with some hawks on the MPC likely to start pushing for a rate hike before year-end.”
- “A rate hike before next year still remains unlikely in our view, though it can't be completely ruled out.”
- “Assuming a smooth conclusion of the furlough programme, the MPC will likely be in a position to hike rates twice next year. We now expect the BoE to raise Bank Rate by 15bps in August 2022, with a subsequent 25bps hike in November, taking Bank Rate to 0.50% by year-end. Absent any major shocks, this will then trigger an organic reduction in the BoE's balance sheet.”

UBS

- “The Committee appears to have turned more hawkish adding that the recent developments have strengthened the case for modest policy tightening if the economy evolves broadly in line with its projections”
- “We continue to expect the MPC to deliver the first rate hike (15bp) in May 2022, followed by the second hike (25bp) in February 2023, with the risk skewed towards more rate hikes if the rise in inflation were to prove more persistent than currently anticipated.”

UniCredit

- “The willingness for the MPC to look through a period of well above-target inflation depends on its estimates of spare capacity, particularly in the labor market. In this respect, the impact of the expiration of the government’s furlough scheme at the end of this month will be crucial.”
- “In August the MPC expected the end of the furlough scheme to have only a very modest impact on unemployment and spare capacity. Whether they are proved correct or not will be crucial for the timing of the first rate hike… We believe the MPC is laying the ground for a possible small (15bp) rate hike as soon as February next year, but there’s a lot that can happen between now and then.”
- “If growth and unemployment were to disappoint MPC forecasts, as we suspect they will, then it will probably delay the first-rate hike until late 2022 or early 2023. Right now, it’s a very close call, and the odds that the Bank of England raises interest rates ahead of the Fed are clearly rising”

Central Bank Watch - Bank of England

September 24, 2021

MNI Bank of England Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	3.2	2.1	↑	0.4	↑					2.59
Core CPI	% y/y	3.1	2.0	↑	0.9	↑					1.88
PPI Output	% y/y	-1.3	-0.9	↓	-0.7	↓					-1.00
Inflation Swap 5y/5y	%	3.84	3.75	↑	3.67	↑					0.94
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	56.3	63.9	↓	58.9	↓					0.39
PMI Services	Index	54.6	62.4	↓	56.3	↓					-0.66
Manufacturing Production	% y/y	6.0	39.4	↓	-4.8	↑					-0.25
Index of Services	% 3m/3m	4.5	1.5	↑	-2.1	↑					1.01
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Consumer Credit	GBP Bn	0.00	0.07	↓	-2.65	↑					0.26
Mortgage Approvals	K	75.15	85.35	↓	96.79	↓					-1.37
Lending Sec on Dwellings	GBP Bn	-1.40	3.56	↓	5.95	↓					-1.52
Nationwide House Prices	% y/y	11.0	10.9	↑	6.9	↑					0.72
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales Inc Petrol	% y/y	0.0	24.5	↓	-3.3	↑					-0.21
Consumer Confidence	Index	-13.0	-9.0	↓	-16.0	↑					-0.09
Employment Chge 3m/3m	K	183.0	61.0	↑	-199.0	↑					1.39
Ave Weekly Earnings 3m	% y/y	8.3	5.8	↑	4.7	↑					1.22
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market (All Share)	Index	4058	4016	↑	3702	↑					1.17
10-Year Gilt Yield	%	0.92	0.80	↑	0.82	↑					0.06
Gilt Curve (2s-10s)	bps	53.9	73.2	↓	69.2	↓					-1.02
GBP TWI	Index	81.60	82.04	↓	81.08	↑					0.04

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg

MNI POLICY TEAM INSIGHTS

MNI STATE OF PLAY: BOE Fragmenting Over When To Tighten

By David Robinson, 23 September

The minutes of the Bank of England September meeting showed that neither of the newcomers, Chief Economist Huw Pill or independent member Catherine Mann, broke ranks, but they underscored the fragmentation within the Monetary Policy Committee as its focus shifts to tightening policy.

While only two members of the MPC, Deputy Governor Dave Ramsden and Michael Saunders, voted to end the current round of asset purchases immediately, there was a diversity of views within the majority no change camp. All accepted policy would need to tighten at some stage as the recovery proceeded, but they disagreed over how likely it was that the sharp rise in consumer prices was likely to be temporary or to herald a more sustained period of high inflation.

The Bank's economic analysis stated that "Against a backdrop of robust goods demand and continuing supply constraints, global inflationary pressures had remained strong and there were some signs that cost pressures might prove more persistent."

MPC members in the majority camp, however, were reported to place different weights on the arguments for more persistent inflation. One thing they did agree on was that the outlook for the labour market was exceptionally uncertain.

LABOUR MARKET ANOMALIES

Deputy Governor Ben Broadbent and Silvana Tenreyro have been leading work on the labour market. There are pockets of the economy, such as in transportation, which are seeing sharp earnings growth and high vacancy levels, with suggestions that skill mismatches may be leading to supply constraints that hold back growth.

Against this backdrop one view was that the case for a wait-and-see policy approach had strengthened, and that "there was a high option value in waiting for … additional information before deciding if and when a tightening in monetary policy might be warranted."

Another view was that with inflation likely to head above 4% and risks that high energy prices and supply bottlenecks could end up producing second-round effects, there was increased reason to worry that high inflation would not prove temporary.

While the change in membership of the MPC has yet to produce any notable effects in itself, the more significant factor is that with two members already making the case for tightening and others leaning that way the first hike may be drawing closer.