BoE Preview: February 2022

Statement/Minutes/MPR release: 12:00GMT, Thursday 3 February
Summary/Minutes: https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/february-2022
MPR: https://www.bankofengland.co.uk/monetary-policy-report/2022/february-2022
Press conference to be streamed online at 12:30GMT

Contents

MNI View: Hike now, possibly Mar, pushback on MT-pricing

Tim Davis, 2 February

Along with all 26 analysts in our survey, the MNI Markets team expects a 25bp hike this week. We note that markets are pricing in around a 15% probability that the MPC goes further and delivers 50bp, but we think that there is an even more remote possibility. A 25bp hike will be the first back-to-back hike since 2004, a 50bp hike back-to-back with a 15bp hike would in our view send the wrong message from the BOE. It would scream of an emergency and may have an adverse effect on inflation expectations if it was viewed that the Bank was only hiking by 50bp because it had lost control of the inflationary path.

Lack of communication

As we noted recently, ahead of both the November and December MPC meetings we had no fewer than 8 significant speeches or comments from MPC members ahead of each decision. Since the December MPC meeting, we have only really heard from Mann (and to a lesser extent Bailey as he testified before the Treasury Select Committee regarding the FSR). Of course, we have had a holiday period over Christmas / New Year but it still feels a notable drop in the frequency of communication in comparison to the other meetings.

So, what is the reason? We know that new Chief Economist Pill is not a huge fan of forward guidance. Ahead of the December meeting Broadbent said that he never makes up his mind on which way to vote at a meeting until he has been presented with the updated facts and heard the arguments of his colleagues. He seemed almost irritated at the frequency he was asked about his future voting intentions. And of course, who can forget that markets were fully expecting a hike in November after communications particularly from Governor Bailey, which the Bank argued were misinterpreted by markets, rather than poorly communicated from the Bank. Perhaps the Bank has come to a view that unless there is something that the market is doing seriously wrong, it will allow inter-meeting volatility to run its natural course. Indeed, expectations have been more stable in the run-up to the February meeting than they had been in the run-up to either the November or December meetings.

Why is there such confidence of a hike with so little communication?

The main reason is inflation. CPI rose to 5.4%Y/Y in December with core CPI at 4.2%. This puts the quarterly CPI print 0.6ppt above the Bank of England's November forecast, a substantial near-term error (which admittedly has been not just an error of the BOE's). On top of this, the latest data is also pointing to an upside surprise to Q4 GDP while labour market data has remained strong.

We are still likely not at the peak for CPI, with the April increase in the energy price cap likely to mark a Q2 peak. Without government assistance, it looks as though consumer energy prices will rise between 30-50%. Recent media reports suggest the government is likely to provide targeted support to more vulnerable households rather than something more wide-reaching like a VAT cut on consumer energy prices. This should mean that the full price increase will pass through to inflation.

Of course, against this backdrop there is a squeeze on real incomes – from a combination of the high inflation, particularly the aforementioned energy price increases, as well as an increase in national insurance contributions which are due to be paid by both employers and employees.

This near-term squeeze in real incomes is not new news, however. And we think that the MPC will be more focused on maintaining its inflation-fighting credibility. We therefore fully expect the Bank to follow up December's 15bp hike with a 25bp hike.

Reinvestments to end (assuming a rate hike)

The 4%22 gilt, of which the BOE bought GBP27.9bln (GBP25.1bln nominal) is almost certainly to not be reinvested. We note that the language used by the Bank in its August 2021 sequencing guidance stated that:

"The MPC intends to begin to reduce the stock of purchased assets, by ceasing to reinvest maturing assets, when Bank Rate has risen to 0.5% and if appropriate given the economic circumstances."

The word "intends" is a strong word for a central banker and conveys a sense of confidence. While it would be hard to argue that it is not appropriate due to "economic circumstances" when the Bank has been confident enough about the circumstances to vote for back-to-back hikes.

Contrast that to the wording around the beginning of active QT:

"The MPC will consider actively selling some of the stock of purchased assets only once Bank Rate has risen to at least 1%."

The word "consider" and the phrases "only once" and "at least" leave a lot more wiggle room for the MPC and stand in stark contrast to the more confident wording around the end of reinvestments.

Market reaction likely to be driven by guidance

Given Huw Pill's dislike of forward guidance, we do not expect explicit guidance to be reintroduced into the statement. There are a couple of things we will be looking out for, however. In terms of the medium-term path, where will the Bank's inflation forecasts be at the end of the forecast horizon? Previously on market pricing, inflation forecasts were a little below 2% while using the futures curve for natural gas (rather than the Bank's normal assumption of futures curve for 6-month and then flat) pushed them even lower. A similar message this month is largely expected, and would see the Bank pushing back on the 1.25% end-2022 rates priced into the market curve used for the forecasts.

We also see potential, particularly in the Minutes, for a statement along the lines of Mann's recent argument that faster hikes in the near-term will mean less hikes are needed overall. Markets are currently fully pricing 50bp of hikes by the March meeting, but only one of the 26 analysts in our survey saw a March hike as a base case.

Part of the reason analysts have given for the lack of a March hike is the large roll-off of the March gilt from the Bank's balance sheet and the uncertain effects. We think that there will only be a negligible impact on markets from this and note that with the gilt maturing 7 March and a 30-year gilt auction to be held on 8 March that any market stress would be evident by the time of the MPC meeting the following week. In the MNI Markets' team's view, if there was to be any large adverse market reaction, at least early warning signs would be notable ahead of the March MPC decision. We do not think that this would be enough to warrant the MPC skipping a hike in the March meeting, however.

We therefore think that there is a greater probability than most analysts expect for a March hike (although we think markets are ahead of themselves fully pricing it in). Indeed, we see little rationale to wait for May rather than hiking in March. If the MPC truly is concerned about stamping out a wage-price inflation spiral, why would it wait until May? What new information will it have by May that it does not have by March other than new economic forecasts (and possibly a better idea of the natgas futures curve)?

We also expect that there will be less opposition to hiking rates to 0.75% than there will be to 1.00%. The 1.00% level is psychologically important for two reasons: first it is the level that active QT can start to be considered, second it is the level Bank Rate was ahead of the pandemic.

Market impact

We would prefer to stay away from trading near-term meetings and instead think there is more scope to seeing Red SONIA futures move higher. In terms of sterling, we expect some weakness, although note that with the ECB meeting happening shortly after, it will be hard to disentangle the moves.

mni Central Bank Watch - Bank of England

February 02, 2022

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	5.4	3.1	↑	2.5	↑					2.45
Core CPI	% y/y	4.2	2.9	↑	2.3	↑					1.39
PPI Output	% y/y	-1.3	-0.9	↓	-0.7	↓					-1.00
Inflation Swap 5y/5y	%	3.96	3.76	↑	3.79	↑					1.15
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	57.3	57.8	↓	60.4	↓					0.33
PMI Services	Index	53.3	59.1	↓	59.6	↓					-1.17
Manufacturing Production	% y/y	0.4	4.0	↓	29.7	↓					-0.80
Index of Services	% 3m/3m	1.3	2.9	↓	4.7	↓					-0.90
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	0.83	0.30	↑	0.60	↑					0.67
Mortgage Approvals	K	71.02	72.27	↓	79.84	↓					-0.52
Lending Sec on Dwellings	GBP Bn	3.57	9.48	↓	16.95	↓					-0.35
Nationwide House Prices	% y/y	11.2	9.9	↑	10.5	↑					0.35
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	-0.9	-1.0	↑	8.6	↓					-0.26
Consumer Confidence	Index	-19.0	-17.0	↓	-7.0	↓					-1.43
Employment Chge 3m/3m	K	60.0	235.0	↓	25.0	↑					-0.85
Ave Weekly Earnings 3m	% y/y	4.2	7.2	↓	7.4	↓					-1.45
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	4232	4129	↑	4030	↑					1.33
10-Year Gilt Yield	%	1.30	1.03	↑	0.57	↑					1.74
Gilt Curve (2s-10s)	bps	23.9	32.4	↓	50.5	↓					-1.13
GBP TWI	Index	82.35	82.12	↑	82.04	↑					1.16

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 Instant Answers

We are pleased to confirm that this month will see MNI Instant Answers return to the BOE.

- Ahead of each policy meeting the MNI Markets team select a number of questions that should capture the essence of the central bank meeting in questions that can largely be answered either numerically or with a yes or no, and which represent all of the expected tradable possibilities.
- These questions will be published within the Preview document and 15 minutes before the announcement on both MNI Bullets and the interactive chat.
- We aim to publish the answers within a few seconds of the embargo being released via the MNI Bullets and our IB chatrooms.

Advantages

- No need to scroll through 30 newswire headlines.
- All of the tradable info you need delivered concisely straight to your bullet feed or the interactive chat.
- Gives you the confidence that you can quickly trade at the announcement time.

February Questions

1) Was the Bank Rate raised, and if so by how much?
2) What was the vote split for the Bank Rate, and who dissented?
3) Will the stock of asset purchases be maintained at the current level?
4) Will the stock of asset purchases be reduced through non-reinvestment of maturing gilts (natural runoff)?
5) Did the MPC issue guidance, identical or very similar to, its December line that: "some [further] modest tightening of monetary policy over the forecast period is likely to be necessary to meet the 2% inflation target sustainably.”
6) UK modal CPI forecast in 2-years time (markets/constant rate).
7) UK modal CPI forecast in 3-years time (markets/constant rate).

Summary of Analyst Views

- All 26 analyst previews that we have read look for a 25bp February hike as their base case. It is also notable that every analyst also sees at least two 25bp hikes in 2022.
- Only Berenberg explicitly state that they do not expect an immediate end to QE reinvestments immediately. Berenberg expects the gilt maturing in March to be reinvested with the passive QT decision being taken in May-22.
- Timing of next hike after February (out of 24 analysts): A majority expect a May hike to follow the February hike.
    - 1 analyst expects March (4%)
    - 15 analysts expect May/Q2 (63%)
    - 6 analysts expect August / Q3 (25%)
    - 2 analysts expect November / Q4 (8%)
- Bank Rate at end 2022 (out of 26 analysts): Only Goldman Sachs and Nomura expect four hikes this year as their base case. Other analysts are almost evenly split between 0.75% and 1.00%.
    - 2 analysts look for 1.25% (8%)
    - 11 analysts look for 1.00% (42%)
    - 1 analyst looks for 0.75% or 1.00% (4%)
    - 12 analysts look for 0.75% (46%)
- Bank Rate at end 2023 (out of 15 analysts): Again, fairly even split of expectations, ranging from 0.75% to 1.75%.
    - 2 analysts expect 1.75% (13%)
    - 4 analysts expect 1.50% (27%)
    - 4 analysts expect 1.25% (27%)
    - 3 analysts expect 1.00% (20%)
    - 2 analysts expect 0.75% (13%)
- In terms of decisions on active QT, many analysts did not lay out explicit expectations as to whether it would happen immediately as Bank Rate reached 1.00%. There were even fewer analysts with a base case of the pace of active QT with estimates ranging from GBP20bln/year to GBP20bln/quarter.

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

Institution	Post-December meeting	Pre-February meeting
Goldman Sachs	Expect 25bp hikes in Feb22, May22, Nov22 with GBP20/quarter pace of QT to be announced in Nov22. Rates then on hold until Q2-24 (two years after active QT starts).	**Expect 25bp hikes in Feb22, Mar22, May22, Nov22, May23, Nov23, May24 (to 2.00%). Passive QT from Feb22, active QT of GBP20/quarter announced in May22.**
Nomura	Stick with view that BoE will carry out further 25bp hikes in February, May and H2-22 with terminal rates at 1.50% in 2023.	**Look for 25bp hikes in Feb22, May22, Aug22, Nov22, Feb23 and May23 to bring Bank Rate to 1.75% terminal rate. Passive QT likely to go ahead; active QT decision to be delayed.**
Morgan Stanley	Expect Feb22 hike. Slowdown in growth, easing of inflation, tax hikes and end of APF revinvestments in Mar22 delay next hike to Nov22 and one hike in 2023.	**25bp Feb22 hike, now also look for 25bp hikes in May22, Aug22and two 2023 hikes. Active gilt sales of GBP20bln/year begin in autumn 2022. Risks skewed to fewer hikes.**
Daiwa	MPC ommitted "coming months" showing "less inclination" for Feb22 hike; also to avoid unpredictable impact of passive QT in March. Look for 25bp hikes in May22 and Nov22.	**25bp hike in Feb22 with QT to begin immediately. Further 25bp hikes in Q2-22 and Q4-22 with Bank Rate at 1.50% by end-2023.**
SEB	Look for 25bp hikes in Feb22, May22, Sep22, Feb23 and Sep23 to bring Bank Rate to 1.25% by end-2023 with a "clear upside risk" to the rate forecasts.	Look for 25bp hikes in Feb22, May22, Sep22, Feb23 and Sep23 to bring Bank Rate to 1.25% by end-2023.
Credit Suisse	Expect 25bp hikes in May22 and Nov22 with APF reinvestments ending when Bank Rate at 0.50% in May22. Feb22 hike cannot be ruled out if Omicron econ impact negliagable.	**25bp Feb22 hike with reinvestments ending; two more 25bp hikes in 2022. BOE to push back against market pricing. Two more 25bp hikes in 2023 to 1.50% by end-2023.**
Bank of America	Bring forward next rate hike to Feb22, triggering a GBP28bln March gilt run-off. Also bring forward next hike to Nov22.	**25bp hikes in Feb22, May22 and Aug22 with passive QT starting in Feb22 and active QT in Nov22 (after consultation launched in Aug22). Active QT to start at pace of GBP5bln/month**
Société Générale	Assuming boosters are effective against Omicron: 25bp hikes in Feb22, May22 and Aug22 (with potential for Nov22 too). Active QT to start at 1% due to low maturing bonds in 2023.	**25bp hikes in Feb22, May22 and Aug22 . Passive QT to start immediately, active QT to be considered when Bank Rate 1%.**
TD Securities	"With the MPC's (possibly overly-) confident discounting of Omicron effects on the outlook." TD Securities now expects 25bp hikes in Feb22, May22 and Aug22.	25bp hikes in Feb22, May22 and Aug22 . Passive QT to start immediately, active QT to be considered when Bank Rate 1%.
HSBC	25bp hikes in Feb22, May22 and Aug22. March gilt not reinvested, 1% Bank Rate in August isn't "an automatic trigger" to active gilt sales.	25bp hikes in Feb22, May22 and Aug22. Forecasts to "broadly endorse" market rates. March gilt not reinvested. There could be a consultation launched on active gilt sales.
UBS	Continue to see 25bp hikes in May22, Nov22 and two more hikes in 2023. "Clear evidence" of Omicron-related supply disruptions could see rate hikes brought forward.	**25bp hikes in Feb22, May22 and Aug22. Markets fully pricing end of reinvestments increasing likelihood BOE don't delay after March. Defer QT decision when rates at 1%.**
Danske		25bp hike in Feb22 with passive QT. Further 25bp hikes in May22 and Nov22 with active QT beginning when Bank Rate reaches 1.00% in Nov22. Risks skewed to more hikes.
JP Morgan	Expect Q1-22 hike (Feb most likely) but see a risk of a pause at the next meeting if there is a "lingering economic drag from Omicron". Further 25bp hikes in Aug22 and Nov22.	Feb22 hike with passive QT. Q2-22 pause; 25bp hikes in Aug22 and Nov22. Forecast under review and if BOE more concerned about inf than growth May22 hike possible.
ING	"We expect two, or at most three, rate rises next year." Expect MPC to wait in Feb22, waiting for more data on Omicron. Pencil in 25bp hikes in May22 and Nov22.	**25bp hike in Feb22 with passive QT. 2 or maybe 3 hikes in total in 2022. Look for Bank Rate at 1.00% by end 2023.**
Rabobank	"We forecast another 25 bps rate hike in the next few months, but expect Bank rate to end the year at 0.50%."	**Expect 25bp Feb22 hike with end to reinvestment. "Fed's hawkishness may provide the MPC some cover" for a May22 hike.**
Deutsche	Bring forward rate profile 3 months: 25bp hike to Feb22, triggering passive QT, then further hikes in Nov22 and Aug23 with "Bank Rate still expected to peak around 1%."	**25bp hike in Feb22, triggering passive QT. Further 25bp hikes in Aug22, Feb23 and Aug23. Active QT not in base case but "should not be discounted when Bank Rate reaches 1%".**
NatWest Markets	See 65% prob of Feb22 hike ("dependent on Omicron having a relatively benign economic impact"). Further 25bp in Aug22. Greater risk of 2023 hikes than more in 2022.	25bp hike in Feb22 with passive QT. Next 25bp hike in Aug22 as MPC proceed cautiously, but 25% (and rising) chance of earlier Mar22 hike. Further 25bp hikes in Feb23 and May23
BNP	Continue to expect next 25bp hike in May22 "not least because of the MPC's sensitivity to Omicron-related developments." One further hike in 2022 and two in 2023.	**Look for 25bp hike but with the MPC "likley to be less hawkish than the action alone would imply." Expect just one further 25bp 2022 hike and two in 2023.**
Pantheon	MPC to give economy some breathing space with next 25bp hike in May-22. Then further 25bp hikes in Nov22 and May23 to leave Bank Rate at neutral level of 1.00%.	**Look for 25bp Feb22 hike with an end to reinvestments. Further 25bp hikes in Q2-22 and Q1-23. Bank Rate of 1.00% facilitates active QE - look for GBP10bln/quarter.**
Commerzbank	"The BoE is focusing on inflation even when it comes to the impact of the omicron variant". Next hike "as early as February." Further 25bp hikes in Q3-22 and Q1-23	Expect 25bp this week with further 25bp hikes in Q3-22 and Q1-23.
RBC	Expect a follow up 25bp in Feb22 but Omicron impact could either see delay to hike or reinvestments for March gilt continue despite hike. Further 25bp hike in Aug22.	Feb22 hike with passive QT. Pause due to large redemption before Aug22 25bp hike. Then further hike in May23 "ahead of further significant redemptions."
CIBC		Feb22 hike with passive QT. Further 25bp hike in Aug22. Bank Rate / active QT not expected before 2023.
Citi		**25bps hikes in Feb22 and May22 with passive QT. 50bps move today cannot be ruled out neither can a 25bp hike in Jun22 or Aug22.**
Barclays	MPC views "Omicron as a transitory complication". Expect 25bp hikes in Feb22 and May22 (Bank Rate at 0.75% in May as previously). Then on hold with "material risks" of 2023 cuts	25bp hikes in Feb22 (with passive QT) and May22, then on hold through the remainder of 2022/23. See alternative scenario with Bank Rate 1.00% by May with active QT.
UniCredit	"MPC to pause raising rates for some time now, although it will probably be able to do one more hike before the end of next year."	**Now expect 25bp hikes in Feb22 and May22 before remaining on hold until at least end-2023.**
Berenberg	25bp hike in Feb22 but still look for March APF reinvestment with passive QE starting after the May22 MPC meeting. Bank Rate at 0.75% by end-2022, 1.25% 2023 and 1.75% 2024	25bp hike in Feb22; passive QT delayed until May22 to avoid "an excessive signal about the future pace" of QT. Further 25bp hikes in Q4-22, Q2-23, Q4-23, two in 2024.

Source: Analyst previews and MNI

Analysts' Key Comments (A-Z)

Bank of America: Quarterly hikes to 1% then active QT at GBP5bln/month from Nov

- **"**Expect the BoE to hike 25bp [this] week, in May & August. We expect passive QT starting in Feb. and active QT in Nov."
- BofA had previously looked for 25bp hikes in Feb22 and Nov22.
- "Big picture is weak UK demand and supply = earlier rate hikes to a low neutral rate. QT substitutes for some hikes."
- Expect consultation on active QT to be announced in Aug22 and report Nov22. Expect pace of active QT to begin at GBP5bln/month initially "with an intention to speed up later" probably to GBP100bln/year.
- Inflation forecasts: "Given the potential quantum of tightening coming quite rapidly, we expect the BoE to judge that inflation will continue slowing below target in the third year of its forecast."

Barclays: Look for 25bp Feb and May hikes, but risk is for 1% rate by May

- "Expect another hike in February as well as passive QT thereafter" and look for unanimous vote.
- Two key messages from February meeting:
    1. "Monetary policy has to tighten but likely not as much as the market thinks"
    2. "Risks are balanced and downside risks should not be overlooked"
- "Our central expectation remains that the bank will hike in February (+25bp) and in May (+25bp) and then leave rates at 0.75% for the time being. In the meantime, passive QT (end of APF reinvestment) will test the impact of balance sheet reduction on the market as early as March"
- Inflation forecasts: "likely 100bp higher in 2022" but "think that the Bank will continue to forecast inflation below target using market expectation and above target using constant rates"
- "Dovish (and influential) members will clearly state that the quicker the pace of tightening, the lower the terminal rate. We would interpret this as another hike in May and status quo thereafter... More hawkish members will likely highlight that the risks to inflation are to the upside. Although these members may not reference active QT, their aim is probably to reach 1% on rates in order to be able to deliver active QT"
- "We believe that a credible alternative risk is for the BoE to hike faster and more than we think. Hence, we think it is useful to consider a scenario in which Bank rate reaches 1% by May and the Bank engages into an active run down of its APF."

Berenberg: Expect 25bp hike but for March gilt to be reinvested with QT beginning in May

- Look for 25bp hikes in Feb22, Q4-22, Q2-23 and Q4-23 to leave Bank Rate at 1.25% by end 2023.
- "Expect the BoE to announce the start of a passive reduction of its balance sheet starting in May 2022."
- "Allowing such a large chunk [the March gilt] to mature right at the start of QT risks sending an excessive signal about the future pace at which the BoE's gilt holdings will fall and could provoke an unnecessary overreaction in the market. In our view, the BoE should consider

delaying the start of a passive unwind until the May MPC meeting or announce that some smoothing will occur during QT to avoid sudden drawdowns – which could involve setting a monthly limit on the value of bonds that will be allowed to roll off."

- "The question of when and how to undertake QT is not purely an economic one. An orderly normalisation of the BoE's gilt holdings will also be determined by operational issues, such as the need to supply adequate sterling reserves to the banking system and the capacity of financial participants to absorb BoE gilts sales."
- In terms of active QT, Berenberg notes that "considering the uncertainties of QT, active sales in 2022 would be premature. We believe the BoE will wait until 2023."
- "Under a solely passive unwind, APF holdings will roughly halve over the next decade in nominal terms and decline from 38.1% to 11.2% of GDP... In a scenario in which the BoE begins to add active sales at £2bn per month starting January 2023, gilt holdings would fall by c75% by 2031 - if that increases to £4bn per month, gilt holdings would fall to zero over the period"
- "The most aggressive QT scenario we outline (passive plus £4bn per month in actives sales)… would only occur in an ultrastrong growth and inflation scenario."

BNP now looks for 25bp next week but keep end 2022/23 forecasts unchanged

- "With the Covid backdrop improving and inflation continuing to surprise to the upside, we now expect the Bank of England to raise interest rates by 0.25% on 3 February, versus our prior expectation of a May hike. In doing so, we expect the monetary policy committee to kick start the process of balance sheet reduction"
- "Still, the MPC is likely to be less hawkish next week than the action alone would imply, while we remain of the view that it will deliver a more gradual pace of rate hikes than is priced into markets"
- "We expect Bank Rate to end this year at 0.75% and end 2023 at 1.25% - markets currently price that level being reached by the end of 2022." This forecast is unchanged from BNP's previous year-end forecasts.
- "On the projections, we expect a more downbeat growth outlook than in November"
- "We expect revisions to the inflation outlook to be mostly in the short term - where the majority of the 'news' has been"
- "In December the MPC indicated that it saw "two-sided" (by which it means balanced) risks to the inflation outlook... we suspect the MPC might wait for more evidence before concluding that inflation risks have shifted decisively to the upside."
- "We would expect the MPC - as it did in November - to push back on the extent of market pricing over the next year. Mann's talk of a 'shallower path' of rate rises supports this view"

CIBC: Second hike in August, active QT not until 2023

- Look for 25bp hike with passive QT.
- "While we would concede that an upward revision to the CPI profile advances the risk of a third MPC hike in 2022, we currently assume a hike now and another in August, we are not yet convinced that the BoE can or should match current market expectations."
- "Active QT, namely the prospect of unwinding holdings back into the market, is set to remain off the agenda until rates have at least reached 1.00%. We do not currently envisage such a scenario ahead of 2023.

Citi: Feb and May hikes before pausing

- "Expect a 25 bps hike [through an unanimous vote], the beginning of passive QT and potentially more hawkish near-term guidance. Our bias remains towards a rapid but ultimately limited monetary tightening in H1-2022."
- "We think active Gilt sales are relatively unlikely in 2022 – with a faster rate hiking cycle required to pass the 1% threshold likely to ferment fears of undue market volatility. We expect a further hike in May, with the MPC on hold through the latter part of the year as demand slows and inflation fears recede."
- "Expect CPI [at market rates] returning to levels just marginally below target in the first quarter of 2025. A margin of spare capacity is also likely to emerge by the end of the forecast, suggesting a further fall in inflation beyond the horizon." At constant rates, Citi looks for CPI at 2.8% at the end of the forecast horizon.
- "A hike of 50bps cannot be entirely ruled out. However, we continue to think it more likely the MPC opt for more consecutive moves – with a larger single move risking the appearance of a loss of control as well as unnecessarily alerting markets to a risk of imminent bond sales."
- "Our base case is a re-introduction of some guidance pointing to the removal of stimulus 'over the coming months' while also re-affirming existing medium term guidance suggesting only a limited scope to hike rates."
- "A hike is possible in March, though we think it more likely the MPC choose to hold off – in part owing to uncertainty over the impact of the first tranche of passive QT. If the government drop the NIC hike, or offers a very large package of household support with energy costs, risks here could rise, however. A third hike – in either June or August – also remains plausible depending on the MPC's communications next week."
- "The MPC may also conclude it has every interest in dragging its feet in an effort to avoid unnecessary volatility. We expect any review into active sales to follow a similar process as that for negative rates – with a protracted consultation on both the impact and administration of any sales before these are deemed feasible."

Credit Suisse: BOE to push back against speed of hikes

- Expect a 9-0 vote for a February 25bp hike to 0.50% with passive QT beginning with the March redemption.
- "We expect the BoE to push back against the speed of hikes priced by the markets this year."
- "The potential growth slowdown from higher energy prices and tax rises in the spring is why we are forecasting three hikes this year… for 2023, rate hike risks are under-priced (barely 15bps priced in for 2023) and the strong labour market fundamentals mean that the BoE can continue to hike rates twice in 2023, such that rates reach 1.5% by end 2023."

Daiwa: Modest tightening of monpol to be stated by BOE

- Look for 25bp hike in February with immediate start to passive QT.
- "The BoE's projections based on no changes to policy are still likely to suggest that inflation would be more likely than not to exceed 2% at that point. So, the vast majority (if not all members) of the MPC will vote for a rate hike this time around. And the Committee will likely repeat that it continues to expect some further "modest tightening of monetary policy over the forecast period" to be necessary."

Danske: Feb, May, Nov hikes with active QT beginning in November

- 25bp hike with immediate start to passive QT.
- “Expect the BoE will repeat that “some modest tightening of monetary policy […] is likely to be necessary”, which we would interpret as a small pushback to current market pricing. A removal would be a hawkish signal”
- “We still expect two further hikes this year (May and November). Hence, the BoE is likely to announce “active QT” in connection with the November meeting. Risks are skewed towards more hikes”

Deutsche Bank looks for terminal rate at 1.25% rather than 1.00%

- Deutsche Bank looks for a unanimous vote for a 25bp hike in February along with a confirmation that there would be no further QE reinvestments following the meeting.
- Expect 4 messages from the MPC next week:
  1. "Omicron will likely delay normalisation adding uncertainty to the near-term path of inflation and labour market recovery"
  2. "Inflation expectations are edging up - but still remain broadly anchored, with two-sided risks still in the outlook."
  3. "The Bank's forecasts should show a clear trade-off between high inflation and low growth"
  4. "Forward guidance to reiterate that some 'modest' tightening is still warranted over the forecast horizon."
- Deutsche Bank has brought forward its expectation of the next 25bp hike to August (from November) but continues to see Bank Rate at 0.75% at end-2022. It then expects further 25bp hikes in Feb-23 and Aug-23 to 1.25% by end-2023 (previously Deutsche had expected 1.00%). Deutsche notes that this change is because of "inflation rising further and remaining more persistent"
- "We also expect discussions around active QT to gather momentum over the next few months. While not our base case at the stage, a slightly more aggressive wind down of the Bank's balance sheet should not be discounted when the Bank Rate reaches 1% - something markets think could happen as early as around summer time this year. We will be looking at this in more detail shortly."

Goldman Sachs: 1% Bank Rate by May with 25bp hikes every six months after

- Expect 25bp February hike with passive QT beginning
- “We now expect stronger wage growth and inflation, and recent BoE speakers have expressed concerns about the knock-on effects of high inflation. As such, we now expect the BoE to hike in back-to-back meetings through May”
- “Expect the BoE to announce a fixed and gradual schedule of asset sales to begin in the summer, after hitting the stated 1.0% threshold in May. While highly uncertain, we are expecting asset sales of around £20 billion per quarter”
- “We expect there to be very limited substitutability between balance sheet policy and rate hikes, consistent with recent comments from Governor Bailey. This suggests further increases in Bank Rate will be required alongside asset sales.”
- “We look for 25bp hikes every six months over the medium term” with Bank Rate reaching 1.25% in Nov-22, 1.5% in May-23 , 1.75% in Nov-23 and 2.00% in May-24.

- “It is possible that the MPC decides to hold an additional vote on whether to begin balance sheet run-off following the February meeting. If such a vote were to be held, it is possible that a couple of members vote against an immediate end to reinvestments”

HSBC: Inflation forecasts to broadly endorse the market path

- “Expect a 9-0 vote for a 25bps rise in Bank Rate to 0.50% on 3 February… think even December’s dovish holdout, Silvana Tenreyro, will be persuaded of the merits of another move”
- With Bank Rate at 0.50%, expect the BOE to cease reinvestments and “expect it to announce its intention to go ahead with this policy in full.”
- On active gilt sales “suspect the Bank may launch a consultation on this, with a view to reporting back as soon as possible”
- “We think the Bank will continue to forecast inflation around the 2% mark over the medium term. In other words, this forecast would broadly be an endorsement of the market path. That said, we do see a risk that the MPC will forecast marginally above-2% over the medium term, if it draws more of a persistent signal from the latest upside news.”
- Continue to forecast “three rate 25bps rises (in February, May and August 2022, taking Bank Rate to 1.00%), with passive QT starting in February... However, if or when, and how active sales will start is more uncertain in our view”

ING: Two or maybe three hikes in 2022

- Look for 25bp hike in February with beginning of QT. Base case sees 8-1 vote.
- “If December’s surprise rate hike decision taught us anything, it was, firstly, that the Bank… is clearly worried about elevated rates of headline inflation and the risk of a virtuous wage-price cycle…. Secondly, December’s decision – taken when Omicron was very much in its ascendency – signalled that the committee is no longer fazed by Covid-19.”
- “Markets are still overestimating the likely amount of tightening required this year, but we expect minimal pushback from the Bank against these investor expectations”
- “We expect two, or maybe three [hikes in 2022…. But even if the Bank quietly agrees, we doubt it will say so. By pricing a steep rate hike path markets are effectively providing the BoE with the inflation protection it is looking for… That said, watch out for hints in the Bank’s forecasts that it thinks market pricing has gone too far.”
- On active QT, ING notes that “based on the impact of QE in the previous cycle, we estimate that £25bn of gilt sales in any given year would have a comparable tightening effect on financing conditions as 0.125% to 0.25% of rate hikes.”

JP Morgan: MPC to push back against 1.25% 2022 Bank Rate

- “We expect the BoE to hike 25bps next week and signal that it has more to do, bringing another hike in 2Q into play. But we think the Bank will not endorse market pricing for rates to reach 1.25% or so by the end of this year”
- “Our best guess is that the vote will be 7-2 in favor of a rate hike, with Tenreyro and Haskel dissenting.” March gilt will not be reinvested.
- “Forecast assumes a brief pause in tightening in 2Q for three reasons: 1) The beginning of balance sheet run off 2) A huge near-50% hike in energy prices in April which will hit household incomes and 3) a rise in income tax”

- “While it is too early to conclude that median inflation expectations have truly been dislodged, the risk is rising and this is something the BoE will be concerned about even if growth is disappointing. With a faster pace of tightening expected elsewhere in the central banking community, we hence now see a higher likelihood that the BoE will hike again in May - though our current call for the next hike is 3Q22. We will revisit that forecast after assessing the degree of urgency expressed by the BoE next week.”
- “In November, the BoE sought to push back on market expectations for 100bps of tightening over the subsequent year. We would expect the BoE next week to now broadly endorse this magnitude of tightening”

Morgan Stanley now looks for a "more front-loaded hiking cycle"

- "With a tighter labour market and higher inflation pointing to increased inflation risks, we see a more front-loaded hiking cycle, with 25bp hikes in May and August as well, paving the way for a start to active gilt sales this autumn - likely at a comparatively modest pace of 20 billion per year, given uncertainty about the impact." MS had previously expected 2022 hikes in February and November.
- "Because we expect global forces on inflation to ebb, and UK inflation to moderate, we think that modest active sales next year will imply only two Bank Rate hikes in 2023, taking it to roughly neutral in 2023." MS had previously only expected one hike in 2023. It now looks for end-2023 Bank Rate at 1.50% from 1.00% previously.
- MS says that its “2023 call assumes a slow and gradual start to active gilt sales, with Bank Rate instead used as the preferred tightening tool.”
- MS notes that "a fragile growth outlook means that we think risks are skewed towards fewer hikes."

NatWest Markets: Following Feb hike, August hike most likely, but probability of March rising

- “A further Bank Rate rise in February 2022 seems highly probable (+25bp to 0.50%). An isolated 15bp Bank Rate rise in December 2021 would otherwise appear to be a largely pointless gesture given the delayed pass-through.” Expect a 9-0 vote.
- “We would put a much lower probability on a 50bp hike in February (<10%). Such a move would be unnecessarily rapid and inconsistent with pre-existing policy guidance. A follow-up 25bp hike in March would be more likely than a 50bp rise in February, but we would still put a relatively low probability on this (~25%).”
- “We expect some hawkish shift, albeit evolution rather than revolution: we do not expect the February Monetary Policy Report forecasts to fully validate market pricing for Bank Rate to reach (exceed, even) 1¼% at end-2022.”
- “Our expectation is that the MPC will proceed cautiously and will want to take a little time to assess the response of households to energy, tax and (to a lesser degree) mortgage rate hikes. Hence, we look for the subsequent Bank Rate rise (after February) to come in August (+25bp to 0.75%) – albeit with growing risks of an earlier move in May.”
- NWM then look for 25bp hikes in Feb23 and May23 to leave Bank Rate at 1.25% by the end of 2023.
- “There is a plausible alternative scenario whereby the MPC concludes that inflation expectations are becoming de-anchored and that Bank Rate rises are required more in line with market pricing – eg, back-to-back 25bp hikes in February and March.”

- On active QT: "We do not expect rapid discretionary selling of gilts, perhaps ~£10-£30bn a year, though this remains distinctly hazy and will of course be dependent on wider economic, fiscal and inflationary conditions. The main problem is that APF redemptions pick up from 2024 and onwards so a reduction in the balance sheet can happen simply through a passive run-off and without active sales."

Nomura now looks for quarterly hikes until Bank Rate reaches 1.75%

- "The limited MPC comments since the Bank's December meeting have not done anything to push back against this market pricing, raising our confidence that the Bank will deliver on a quarter-point hike."
- "We had previously thought that the Bank could skip the first redemption of almost £28bn in March and allow roll-off to start only from later in the year, when redemptions would be more gradual... We have changed this view… and now see the Bank allowing roll-off to begin from the March redemption. While almost £28bn of balance sheet reduction in March is not an especially "gradual" way to start QT, relative to the Bank's holdings of £875bn it's still only 3.2% of the outstanding stock."
- After the Fed and Nomura US' new Fed view "adjust our BoE view to a 25bp hike every quarter (timed to coincide with the publication of Monetary Policy Reports), taking rates to 1.25% by year-end. Two further hikes in H1 2023 would leave rates at a terminal point of 1.75% by the middle of next year. Previously, we had been assuming 1% by end-2022 and a terminal rate of 1.50% in Q3 next year."
- "Given the greater discretion that the Bank will ultimately have over active versus passive QT we think there will be a more prolonged debate on the Committee which – alongside the Bank's less-specific guidance – will delay a decision on active sales until the end of this year (perhaps the November meeting, when Bank Rate should have been raised to 1.25% on our new view). Moreover, we do not expect a decision to employ active sales to be enacted until into 2023."

Pantheon: Reinvestments ended so as not to weaker its credibility

- Look for 25bp hike next week.
- "We doubt that the MPC will further weaken its credibility with financial markets by deferring the end of reinvestments in order to prevent such a modest tightening of monetary conditions."
- See further 25bp hike in Q2-22 with 25bp in Q1-23 facilitating the beginning of active QT.
- "Our working assumption remains that the BoE will proceed cautiously with £10B of gilt sales per quarter"

Rabobank: See a much less aggressive tightening cycle than priced-in

- "Expect the Bank of England to press ahead with a 25 bps rate increase to 0.50% [this] week. This would set passive balance sheet reduction in motion"
- "We forecast a much less aggressive tightening cycle than what is currently priced in front-end rates, but the Fed's hawkishness may provide the MPC some cover. We therefore look to add another 25 bps hike in May to our forecasts"

RBC: Large gilt reinvestment in March warrants a pause for following hike to August

- **“**MPC to raise Bank Rate to 50bps to trigger beginning of QT”
- **“**In the November MPR the fan chart showed CPI inflation above target at the two-year horizon at 2.2%. Because of the higher near-term peak we assume the latest fan charts will continue to show inflation above target at the medium term. That is despite the conditioning assumptions underpinning the forecast assuming almost one full rate hike (25bps) in additional tightening at that two-year horizon compared with the November MPR”
- **“**Given the large redemption in March, £28bn, we think it will warrant a pause from the MPC in terms of rate hikes, and see the August meeting as the point when the MPC will next act taking Bank Rate to 0.75%. After that we see the MPC delivering a further rate rise in May 2023 ahead of further significant redemptions in H2 2023.”

SEB: Bank Rate at 1.25% by end-2023

- Look for 25bp hikes in Feb22, May22, Sep22, Feb23 and Sep23 to bring Bank Rate to 1.25% by end-2023.
- “BoE will also decide to allow its government bond holdings to roll off.”

SocGen: Expect 8-1 hike

- Expect 25bp February hike with reinvestments ceased immediately.
- “We maintain our existing forecast of further 25bp rate increases at the May and August MPR meetings, taking Bank Rate to 1%. At that stage, under the new exit strategy, the MPC will consider an active” gilt sales programme.
- “Think the same eight [MPC members] will vote for a rate increase of 25bp and to end the automatic reinvestment of maturing bonds. It is possible that Tenreyro repeats her vote for unchanged rates, especially given the uncertain energy market outlook, in which case she would also vote against the reduction in the QE stock.”

TD Securities: Consideration for active gilt sales from August

- Expect 25bp hike in February with gilt reinvestment to end.
- Inflation forecast “for 2022 as a whole is likely to be revised up nearly 1ppt, with inflation well above target through 2023 as well. The risks are skewed slightly to the upside for Years 2-3 inflation, with a higher yield curve weighing slightly, but better economic momentum in 2023 offsetting to the upside.”
- “In November, the MPC noted that the rise to 1% implied inflation falling below target toward the end of the forecast horizon. The question is whether recent developments offset this—in other words, can the MPC do anything about current high inflation rates, or does the ongoing erosion of real income push risks further to the downside further into the projection horizon?”
- “We expect subsequent hikes in May and August this year, triggering the consideration of active Gilt sales from August.”

UBS: Changed its forecast following GDP data to look for more front-loaded hikes

- Look for 25bp February hike.
- “We have previously noted that the MPC could stay on the cautious side and choose to end reinvestments after the £25bn redemption of Gilts on 7 March. However, the markets appear to be fully pricing an immediate end to reinvestments implying a low risk of an adverse reaction. This, in our view, increases the likelihood that the MPC will on 3 February decide an essentially immediate end to reinvestments.”
- “Given the likely spike in inflation to around 6% y/y in April and the tight labour market, which appears to have smoothly transitioned from the furlough scheme, we expect the Committee to follow with two more 25bps hikes in May and August, thus taking the Bank Rate to 1%, the "soft" threshold for outright asset sales and above the post-GFC high of 0.75%.”
- “We think the MPC will prefer to pause upon reaching 1% and defer the discussion on an active balance sheet unwind. With our baseline foreseeing inflation slowing to less than 2% in Q2-23, we expect no further hikes in 2023.”
- UBS’ previous forecasts saw hikes in May22, Nov22 and two hikes in 2023.

UniCredit: Hike in February and May then on hold until end-2023

- UniCredit “now expect the Monetary Policy Committee (MPC) to hike the bank rate by 25bp next week and again in May, and then to remain on hold at least until end-2023.” (previously one hike in 2022 with second hike in February 2023).
- “We see 0.75% as the peak of this hiking cycle... Indeed, there is little or no reason to believe that the neutral rate of the bank rate would be higher in the post-pandemic era than pre-pandemic”

MNI POLICY TEAM INSIGHTS

BOE Set To Hike, Signal Another Soon

By David Robinson, 1 February

The Bank of England looks set to raise Bank Rate by 25 basis points for a second meeting in a row this week, taking it to the 0.5% threshold for it to begin reducing the size of its balance sheet, and to open the door to another hike in May.

Governor Andrew Bailey and colleagues on the Monetary Policy Committee are likely to signal that swift tightening should avoid the need to act more aggressively later, though rate path projections in the accompanying Monetary Policy report may do little to reduce market doubts over where Bank Rate will conclude the year.

With analysts debating whether the policy rate is likely to see in 2023 at 1% or 1.25%, the MPC’s projection assuming unchanged policy is likely to show inflation overshooting the 2% target, but the market rate path could show inflation close to, or even slightly beneath, target, possibly indicating that investors are overestimating the pace or extent of future tightening. While investors will attempt to extract a policy signal from the MPR projections, officials including Deputy Governor for Monetary Policy Ben Broadbent have cautioned that this is not straightforward.

Despite some market speculation that the looming redemption of the Bank’s GBP27.94 billion in March 2022 gilts might prompt a delay to start of the natural runoff of its balance sheet, tightening guidance issued in August indicated that an end to reinvestment of the proceeds of maturing bonds was almost certain once the policy rate hit 0.5%, and any change to this stance would only confuse the BOE’s messaging. It will decide whether to actively sell gilts once the rate reaches 1.0%.

VOTE HARD TO PREDICT

With only Bailey and MPC member Catherine Mann having spoken this year, the MPC vote is harder than usual to predict. Governor Bailey gave little away in an appearance before the Treasury Select Committee, while Mann told an OMFIF event that early policy action could dampen expectations feeding wage-price inflation and ultimately achieve a flatter rate path.

It is also uncertain whether Silvana Tenreyro, who alone voted against the December hike, will maintain her opposition to tightening. She argued for a wait-and-see approach in order to ensure the recovery was not materially threatened by Omicron, but since then the economy has remained open, with some indications that supply chain disruption by the latest Covid wave may be adding to inflationary pressure.

Other MPC members have kept their counsel. New chief economist Huw Pill is sceptical of the benefits of forward guidance, while Broadbent has said central banks should not "spoon feed" market participants.

MNI INSIGHT: A BOE Feb Hike Set To Start Full-Pace Gilt Runoff

By David Robinson, 28 January

The Bank of England is widely expected to hike Bank Rate to 0.5% in February, the point at which the Monetary Policy Committee has made it pretty clear that it will press ahead with all-out non-reinvestment of maturing assets rather than attempting any fine-tuning of its natural run-off policy.

The natural run-off will move slowly in fiscal year 2022/23 starting in April, with only GBP9.13 billion of gilts at purchase value set to mature. But on March 7, there is a chunky GPB27.49 billion maturing, leading some analysts to speculate that the Bank could announce only partial non-reinvestment of those proceeds.

That, however, looks implausible as the Bank's guidance -- outlined in last August's quarterly statement -- has been that a natural run-off will be automatic, with the only exception an economic conditions test which would include stressed markets, which is not applicable at present.

While the MPC gave itself flexibility over whether and how fast to conduct gilt sales when Bank Rate hits 1.0%, w when it unveiled its tightening strategy in August, the committee effectively pre-committed to a natural run-off when the policy rate hits 0.5%, barring exceptional circumstances.

Efficient market theory implies that if the market has understood the Bank's message, the gilt curve should already be fully factoring in the Bank's gradual run-down of its gilt stock through the natural run-off process. Tweaks to the run-off once it commences would serve only to cloud market perceptions of what is happening.

TRICKER QUESTION

The far trickier question is what assumptions market participants are, and should, make over the gilt sales when the policy rate hits 1.0%. One thing that will be key here is what impact balance sheet reduction is having, if any, on market curves.

Former MPC member Gertjan Vlieghe, highlighting how asset purchases had had a powerful impact in illiquid markets, argued that balance sheet reduction in liquid markets should have negligible effects. The MPC will want to see how the theory plays out in practice.

If quantitative tightening is not seen as a signal on rate policy, the signalling channel is ‘turned-off’ in the QE jargon. Then the committee could feel free to accelerate the pace of balance sheet reduction.

Potential inflation overshoots would be dealt with through Bank Rate hikes but if at some point balance sheet reduction does push up market rates, then policy rate hikes and quantitative tightening would become substitutes for each other.

MNI INTERVIEW: BOE Shouldn't Rely On Price Expectations-Weale

By David Robinson, 27 January

The Bank of England should pay more attention to labour market trends and less to inflation expectations as it tries to anticipate future price moves, former two-term Monetary Policy Committee member Martin Weale told MNI.

Pitching in to a debate now underway on the MPC as inflation expectations spike at the same time as the labour market tightens, Weale noted that evidence from his and his co-authors' work shows firms' price expectations are strongly influenced by recent outturns, reducing the accuracy of the BOE's models of future inflation.

"What is happening in the labour market is a much better guide to inflationary risks than people's expectations," Weale said in an interview. "When past price increases have been high we found price expectations tended to be a bit overblown."

When, as now, inflation is elevated, firms' price expectations are likely to become even less reliable guides to future price changes, he said.

"They would become worse because there is just more noise going on, there are more surprises," said Weale, currently an economics adviser to the Office for National Statistics and a professor at King's Business School.

INTERNAL BOE DEBATE

Divisions are evident among current MPC members over the relative importance of inflation expectations. At a November agency briefing, Deputy Governor Dave Ramsden cited upside risks from wage developments and inflation expectations but Chief Economist Huw Pill placed more emphasis on the labour market.

The role expectations play in wage-setting can vary depending on the state of the labour market, Weale said.

"What is going on in the labour market tells you about the expectations that actually matter," he said, "Once you have costs rising then that is pushing up on prices and my view is that is where we are now."

Bank of England models factor in new-Keynesian thinking placing heavy weight on price expectations, assuming that keeping these anchored on the BOE's 2.0% objective will eventually bring inflation back to target. (See MNI INTERVIEW2: BOE Too Optimistic On Inflation- Mortimer-Lee).

"In the traditional New Keynesian model, actual price growth depends about one-for-one on expected price growth. The coefficient we found was of the order 0.2 to 0.3, depending on how we specified it. That points to a much weaker role for expectations," Weale said.

But placing a lower weight on expectations must not be confused with any lessening of the Bank's determination to meet its inflation target, he stressed.

"If people stopped believing that then we could go closer to the 1970s quite easily," he said, recalling a time when when inflation on the CPI measure peaked at 22.6% rather than 6 or 7% plausible now.

MNI INSIGHT: BOE On Tightening Path Without Forward Guidance

By David Robinson, 21 December

The next hike in UK interest rates looks set to be delivered without any official steer as to timing or to the precise conditions to be met to justify tightening, following the Bank of England's decision to move away from explicit forward guidance.

The Monetary Policy Committee's prior conditional guidance that it did not intend to tighten without "clear evidence that significant progress is being made in eliminating spare capacity" was ditched in September. Then in December, when the MPC delivered a 15-basis point hike, it also dropped November's guidance, which had stated that if incoming data, particularly on the labour market, were broadly as expected it would be necessary to boost rates over coming months.

The Bank's experience with guidance has often been an unhappy one, earning it the moniker "unreliable boyfriend". New BOE Chief Economist Huw Pill has now expressed his unease over even conditional forward guidance, saying that such policy forays tend to end in confusion.

While the BOE still retains some guidance, that "modest tightening of monetary policy over the (three-year) forecast period is likely to be necessary", it is vague enough to impose no real constraint on policy setting, allowing freedom over the timing and scale of hikes.

NO TURNING BACK TO GUIDANCE

And nor is the Bank likely to return to firmer guidance in the future. For example, in the case of fresh economic disruption from something such as new Covid shocks, it is unlikely to try to reassure markets with a promise to keep rates lower for longer, a commitment which might put it in the position of having to look through periods of overshooting inflation, contravening its mandate.

Markets are still getting used to the move away from what Deputy Governor Ben Broadbent has scornfully described as the "spoon-feeding" of investors. With asset prices volatile, MPC members have become wary of providing commentary that could be interpreted as steering for a hike in any given month, and markets were wrong-footed by December's hike, which they had not expected until February. Investors had made an incorrect collective punt in the opposite direction in November, when they had mistakenly expected a rate increase.

The MPC also looks unlikely to become much more specific about how high Bank Rate is likely to rise this cycle. While one MPC member, Silvana Tenreyro, has referred to a return to around the pre-Covid level of Bank Rate of 0.75%, the Committee publishes neither individual nor collective rate forecasts, so it has no straightforward way of signalling where it expects them to peak.

Some investors might try to read a rate path into projections in the Monetary Policy Report, which in November indicted that if Bank Rate rose in line with market expectations to around 1.1%, inflation would undershoot the 2.0% target three years out. However, as former MPC member Gertjan Vlieghe has explained, multiple rate paths are compatible with bringing inflation back to target, and it is not possible to back out a unique MPC-desired path for interest rates simply by observing how far the inflation forecast is above or below target at the end of the forecast period. New projections come in February.
