mni

All Signal, No Noise

MARKET ANALYSIS

BoE Review: June 2022

Statement/Minutes release: 12:00BST, Thursday 16 June
Summary/Minutes: https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/june-2022

Contents

MNI View: 60% probability of a 50bp hike in August

Tim Davis, 17 June

A 25bp hike was delivered by the MPC as was unanimously expected by sell-side analysts. Markets had fully priced a 25bp hike with a 40% probability of a 50bp hike also being priced in. The knee jerk market reaction was in a dovish direction because only a 25bp hike was delivered.

However, markets quickly reversed course and priced in a substantially more hawkish outlook for the Bank of England due to the change to forward guidance.

The May guidance read:

"Most members of the Committee judge that some degree of further tightening in monetary policy may still be appropriate in the coming months. There are risks on both sides of that judgement and a range of views among these members on the balance of risks."

Our Policy team learned that seven of the nine MPC members backed this forecast. The language used in June was:

"The MPC will take the actions necessary to return inflation to the 2% target sustainably in the medium term, in line with its remit. The scale, pace and timing of any further increases in Bank Rate will reflect the Committee's assessment of the economic outlook and inflationary pressures. The Committee will be particularly alert to indications of more persistent inflationary pressures, and will if necessary act forcefully in response."

The language was strengthened

There are a few observations we can make surrounding this language change. There is a debate whether it can technically be construed as forward guidance as there is neither a time commitment nor an explicit economic variable which action will depend upon. However, even with that caveat, there are a few ways the language has been strengthened:

1. Risks are now seen to the upside, rather than being two-way.
2. The BOE is opening the door to 50bp hikes by mentioning the "scale" of hikes.
3. There is no caveat that the guidance is only supported by "some members" (which was 7 members in May).
4. This part in itself is also particularly hawkish: "would if necessary act forcefully in response."

The market, most analysts and ourselves see this as a hawkish pivot from the MPC. We think that the economic data – particularly CPI data on 22 June and 20 July, as well as the labour market report on 19 July will take on additional significance. If all of these events come in above expectations, we would expect the MPC to follow through and raise rates by another 50bp in August.

Exchange rate developments will also be watched by the MPC

The exchange rate will also be closely watched, and a further notable depreciation in sterling against the dollar would likely increase the probability of a 50bp move in August. This is because so much of the headline rise in inflation is being driven by goods priced in dollars at present (energy, food etc).

Why the Bank of England is less likely to do 75bp hikes

Markets are going even further by fully pricing a 50bp August hike with around a 25% probability of a 75bp hike. We think the debate for the MPC will be between 25bp and 50bp, and see very little chance of a larger than 50bp hike, irrespective of what other central banks do. Relative to the Fed and the ECB, the BOE's position is different.

1. The BOE started raising rates at the end of 2021, 4 months before the Fed and 8 months ahead of the ECB (assuming a July hike). So the transmission of those hikes will start to filter through to the UK economy sooner than elsewhere.
2. Because of the earlier tightening, the UK Bank Rate is much closer to neutral than either the Fed or ECB rate is. Most estimates of neutral for the UK are between 1.25-2.00%, so we are already at the bottom of that range after June's hike whereas the Fed and ECB are still some way off bringing rates back to neutral.
3. UK economic data already looks more questionable than that seen in the US or Eurozone. The probability of a UK recession seems higher than for both, and economic data is already showing some signs of slowing. There is little evidence of this seen in either the US and limited evidence in the Eurozone. Of course it is possible to have inflation during a recession, but as the UK economy slows, the outlook for the labour market should soften (albeit with a lag of a few months). Assuming growth is already slowing, this means that the labour market could start slowing later this year, around the time inflation is due to peak.

MNI Markets team sees a 60% probability of a 50bp hike in August

For these reasons, we think it is unlikely that the MPC would choose to hike at an increment of more than 50bp; indeed, the MNI Markets team attaches around a 60% probability to a 50bp hike in August. Further out, it looks likely we would see at least one more 25bp hike in September, and probably in November too, which would bring the Bank Rate to 2.25% - into slightly restrictive territory. If at this point growth is stalling, the labour market cooling and inflation peaking, the Bank may then choose to pause and see how things settle.

MNI Instant Answers

- 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 interactive chat.

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.

May Questions

1) Was the Bank Rate raised, and if so by how much? Yes, 25 bps to 1.25%
2) Number of members voting for a 25bp hike? 6
3) Number of members voting for a 50bp hike (and who)? 3: Haskel, Mann & Saunders
4) Number of members voting for unchanged Bank Rate (and who)? 0
5) Did the MPC announce sales of gilts would start (and when)? No
6) Did the MPC issue guidance, identical or very similar to, its May line that "some degree of further tightening in monetary policy may still be appropriate..."? No, "scale, pace and timing of further increases in bank rate will reflect the committee's assessment of the economic outlook and inflationary pressures... will if necessary act forcefully in response"
7) Was the guidance outlined in question 6 specified to take place “in the coming months”? N/A
8) Was the guidance outlined in question 6 supported by “most members of the Committee”? N/A
9) At what level and when does the Bank now expect CPI to peak? Slightly above 11% in October
10) Does the MPC outline more or less upside inflation risk over the forecast horizon? N/A
11) Does the MPC outline more or less downside growth risk over the forecast horizon? N/A

Summary of Analyst Views

- Out of 22 analyst reviews that we have read, 15 have changed their base case BOE call following yesterday's meeting.
- All analysts continue to expect a hike in August, but 6 have increased the magnitude of that hike to 50bp (prior to the June meeting, there was a unanimous view across these analysts that the base case for August was a 25bp hike).
- Deutsche Bank and Goldman Sachs also both look for a second 50bp hike in September.
- NatWest Markets, Rabobank and UniCredit expect August to be the last hike of 2022.
- Most analysts views the change in forward guidance to be a hawkish step from the BOE, noting that there was no dissent to the new language and that it opens the door to larger hikes.
- Pantheon, NatWest Markets and UniCredit argued that the change was actually a dovish move from the Bank (at least in the near-term) as the guidance is looser and the Bank has removed the time commitment for further tightening in the "coming months".
- Only 3 analysts still see cuts in their base case:
  - Citi (two 25bp cuts in H2-23 after reaching terminal rate of 2.00%)
  - Daiwa (two 25bp cuts in H1-24 after reaching a terminal rate of 2.50%)
  - Deutsche Bank (100bp starting mid-23 after reaching a terminal rate of 2.50%).
- Bank Rate at end 2022 (out of 22 analysts): The median is 2.00% while the majority of analysts expect Bank Rate to end 2022 in a 2.00%-2.25% range.
  - Goldman Sachs looks for 2.75% (5%)
  - 4 analysts look for 2.50% (18%)
  - 5 analysts look for 2.25% (23%)
  - 7 analysts for 2.00% (32%)
  - 2 analysts for 1.75% (9%)
  - 3 analysts look for 1.50% (14%)
- Bank Rate at end 2023 (out of 19 analysts): The median looks for 2.00% with most analysts in the 2.00-2.50% range.
  - Credit Suisse and JP Morgan expect 3.00% (11%)
  - Goldman Sachs expects 2.75% (5%)
  - 4 analysts expect 2.50% (21%)
  - Nomura and UBS expect 2.25% (11%)
  - 6 analysts expect 2.00% (32%)
  - Barclays and Pantheon expect 1.75% (11%)
  - Citi and UniCredit expect 1.50% (11%)

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

Institution	Pre-June meeting	Post-June meeting
Goldman Sachs	25bp hike with 2-6-1 vote (50/25/unch). Further 25bp hikes at each meeting until Feb23. Gilt sales could start in Sep22 but may be delayed until Q1-23.	**50bp hikes in both Aug22 and Sep22 then 25bp in Nov22 and Dec22 to 2.75% terminal rate. Start of gilt sales uncertain but continue to expect to begin at Nov22 MPC meeting.**
Deutsche	25bp hike at each meeting through Feb23, but with rate cuts "from late Q4-23." Expect the MPC to stick to its May guidance.	**50bp hikes in both Aug22 and Sep22 then 25bp in Nov22 to 2.50%. Active QT start in Q4-22. Pause as data cools then 100bp of cuts starting mid-2023.**
BNP	25bp hike with "convincing majority" voting for 25bp. Fiscal/labour market developments lead to BNP to add hikes in Aug22 and Nov22. Two further hikes in H1-23 to 2.25%.	**50bp hike in Aug22 with 25bp hikes in Sep22, Nov22 and Dec22 to 2.50% (terminal rate 25bp higher than previous). "Another source of tightening" from active gilt sales in 2023.**
RBC		**50bp hike in Aug22 with 25bp hikes in Sep22, Nov22 and Dec22 to 2.50%. Latest labour market data softer than expected, hence only see MPC able to deliver one 50bp hike.**
Daiwa		**50bp hike in Aug22 with further 25bp hikes in Sep22, Nov22 and Dec22 to 2.50%. "Good chance" of gilt sales commencing in Sep22 if market is stable. Cuts in Q1-24 and Q2-24.**
JP Morgan	25bp hike with 3 votes for 50bp and "a chance" of a 3-way split. Further 25bp hikes in Aug22, Sep22, Nov22, Feb23, May23 and Aug23 to 2.75%.	**50bp in Aug22 as BOE will not get "better news on inflation persistence." Revisit rest of fcast after CPI; currently further 25bp hikes in Aug22, Sep22, Nov22, Feb23, May23, Aug23.**
Credit Suisse	25bp hike with 6-3 vote (dissents for 50bp). Guidance could be strengthened for more hikes. Further 25bp hike in Aug22; then a pause and three further hikes in 2023 to 2.25%	**25bp hikes in Aug22, Sep22, Nov22 and Dec22 to 2.25%, then a further three hikes in 2023 to 3.00%.**
UBS	UBS expect an unaniomous vote for a 25bp hikes in Jun22 (risk of some 50bp votes). Final 25bp hike in Aug22 as base case, but see upside risks.	**Expect 25bp hikes in Aug22, Sep22, Nov22 and Dec22 to 2.25%. If inflation and labour data indicate "more persistent inflationary pressure" risk of 50bp in Aug22 rises "significantly."**
TD Securities	25bp hikes in Jun22, Aug22, Sep22 and Nov22 to a terminal rate of 2.25% in December.	25bp hikes in Jun22, Aug22, Sep22 and Nov22 to a terminal rate of 2.25% in December. 50bp can't be ruled out and the Aug MPR projections might provide backdrop for a move.
Nomura	Expect a 6-3 vote for a 25bp hike (3 votes for 50bp). Fuirther 25bp hikes expected in Aug22 and Nov22.	**Expect 25bp hikes in Aug22, Sep22, Nov22 and Dec22 to 2.25% with two way risks. No futher hikes in 2023. Active gilt sales of GBP10bln/quarter from Q1-23.**
Berenberg	25bp hikes in Jun22, Aug22, Sep22, Nov22, Q1-23 and Q3-23. "People do not believe that the BoE is fully in control of the situation."	25bp Aug hike (30% prob. 50bp). Further 25bp in Sep22 and Nov22. "Aggressive pace" of gilt sales possible in Aug22 as alternative to more hikes (e.g. GBP5-10bln/month).
SEB	See 25bp hikes in Jun22, Aug22, Nov22, Feb23 and May23.	**25bp hikes in Aug22, Sep22, Nov22, Feb23 and May23.**
Bank of America	Look for 25bp hike with 6-3 vote (risk of 5-4); all dissenters looking for 50bp. Look for further 25bp hikes in Aug22, Sep22 and Nov22 and no longer look for 2023 cut.	25bp hikes in Aug22, Sep22 and Nov22. Door wide open to 50bp move in Aug and/or more hikes. Staying at neutral relies on anchored inf exp, that view is "now challenged".
Société Générale	25bp hike this week but with the vote "split between 25bp and 50bp moves." Continue to look for further hikes in Aug22, Sep22 and Nov22 and then on hold through 2023.	Maintain forecast for 25bp hikes in Aug22, Sep22 and Nov22. Key risk is for a 50bp hike "at one or more of those meetings."
Morgan Stanley	Unanimous vote for 25bp with risk of 2-6-1 (50/25/unch). Further 25bp hikes in Aug22, Nov22 and Feb23 with actuve QT at GBP10bln/Q from Q4-22.	**25bp hikes in Aug22, Sep22 and Nov22. Door open to 50bp in Aug22 as the "currency is adding to imported inflation pressures" but weak growth data should see 25bp.**
ING	25bp hike with 6-3 vote (dissents for 50bp). Risk of a 3-way split or Ramsden voting for 50bp. Further 25bp hikes in Aug22 and Sep22 taking Bank Rate close to neutral and Bank pauses.	**Look for 2.00% Bank Rate by year end, "probably roughly consistent with neutral." Could see 50bp in Aug22 with another 25bp in the autumn or 3 consecutive 25bp hikes.**
Citi	25bp hike with 6-3 vote (hawkish dissents; although also possibility of some dovish dissent). Further 25bp hike in Aug22 before cuts in H2-23 back to 1.00%.	**Look for a longer rather than necessarily a more sudden hiking cycle with 25bp hikes in Aug22, Sep22 and Nov22. Still pencil in two 25bp cuts in H2-23 to bring Bank Rate to 1.50%**
Barclays	25bp hike; 2-6-1 vote (50/25/unch). Further 25bp hike in Aug22, then pause as tailwinds from recovery fade and cost-of -living intensifies and past tightening passes through.	**25bp hike in Aug22 remains baseline view, but May and June inflation "may result in a 50bp rise". Look for further 25bp in Sep22 to see Bank Rate peak at 1.75%**
Pantheon	25bp hike with 3-5-1 vote (50/25/unch). Further 25bp hike in Aug22.	**25bp hikes in Aug22 and Sep22. "The MPC's decision to drop its guidance does not fit markets' narrative that it has turned more hawkish."**
NatWest Markets	25bp hike hike with 2-5-2 vote (50/25/unch). Further 25bp hike in Aug22 before a pause, then 25bp hikes in Feb23 and May23. Active gilts sales of GBP50bln/year begin Q1-23.	Guidance " dampens prospects" of 50bp in Aug/Sep. Continue to look for 25bp hikes in Aug22, Feb23 and May23 with risk of 2023 hikes brought forward to 2022.
Rabobank	25bp hikes in Jun22 and Aug22 "before the Bank of England takes a pause". But "clear upside risk" to this forecast. Aug22 could see decision to actively sell gilts.	Expect final 25bp hike in Aug22 as BOE takes a pause after weak growth, UnE and inflation forecasts in the next MPR. Risk is currency weakens and forces BOE to hike more.
UniCredit	Now look for 25bp hike this week with 1-2 members voting for unchanged rates. Still see 25bp Aug22 hike as the last in the cycle while gilt sales "could be put on indefinite hold."	"Looser guidance" than May. Expect final 25bp hike in Aug22. See a high risk of a technical recession and MPC pause when it starts to see margin of spare capacity opening.

Source: Analyst previews and MNI

Note: Sorted by next month to hike, then hikes this year, then 2023 outlooks

Analysts' Key Comments (A-Z)

Barclays: Two more 25bp hikes but risk of 50bp in August

- "While we think a 25bp hike [in August] remains the baseline, May and June inflation may result in a 50bp rise, as now expected by the market. We change our call and expect one more 25bp hike to 1.75% in September."
- Previously, Barclays had expected the August hike to be the last.
- "The MPC introduced new guidance at the June meeting, which is more flexible and possibly more hawkish… Importantly, as well, the dovish dissenters in May have backtracked by voting for 25bp at this meeting, and they appear to have fallen in line with the new guidance."
- "Core service inflation has been on an upward trend since early 2021 but has spiralled this year, jumping up from 3.2%y/y in December 2021 to 4.9%y/y in April 2022... We believe that the new guidance now fully reflects the view that services, and in particular core services, are a relevant proxy of inflation persistence and possible second-round effects and, accordingly, a relevant indicator for the conduct of monetary policy."
- "We see "forcefully" as a codeword for a 50bp hike"

Berenberg: See a 30% chance of 50bp in August or more aggressive pace of gilt sales

- "We expect three further 25bps hikes in 2022 – with a hike in each meeting up to and including November."
- "Had another member voted for 50bps at this meeting… that would have provided a strong signal that 50bp could come in August… we see a 30% chance of a larger 50bp move."
- "As the BoE looks set to announce a schedule for its planned gilt sales in August… policymakers may choose a somewhat aggressive pace of gilt sales (of say £5-10bn per month) as an alternative to steeper rate hikes"

BNP: 125bp more this year with 50bp in August

- "The Bank of England's message today contained a clear hawkish tilt, in our view… its newly forceful forward guidance opens up the possibility of more aggressive rate hikes"
- "We now expect a more frontloaded path of tightening than we did before and a slightly more restrictive terminal rate. We see 125bp of further tightening this year, including 50bp in August, taking Bank Rate to 2.5% by year-end."
- "This brings forward two hikes that we had pencilled in 2023 as well as adding 25bp to our previously envisioned terminal rate (2.25%)."
- "The Monetary Policy Committee had previously sought in May to temper expectations about the path for tightening ahead… This has been replaced with a much more forceful message: There is no mention of different camps of members within the MPC, suggesting there is a consensus behind the message…. This message is now not only that continued tightening is appropriate, but the MPC also opened up the possibility of a more frontloaded path with larger rate hikes…. The MPC "would if necessary act forcefully" should there be any "indications of more persistent inflationary pressures"."
- "We continue to expect the BoE to begin active gilt sales in 2023, which would act as another source of tightening"

BofA: Three more 25bp hikes with "large upside risks"

- "Does the reluctance to hike 50bps [yesterday] challenge the BoE's hawkish status? We would argue no. Weakness in data probably prevented a more hawkish outcome [yesterday], but the door for a 50bp move in August, and/or more than three additional hikes remains wide open."
- BofA continues to look for 25bp hikes in August, September and November.
- "By November we expect growth to have been zero or worse for six months, the labour market to be loosening and inflation to have peaked."
- "We see large upside risks. The BoE being able to keep rates in-line with, rather than going well above, neutral relies on anchored inflation expectations. We think that assumption is now challenged"

Citi: A longer rather than more sudden hiking cycle

- "The MPC's decision [yesterday] constitutes an abandonment of guidance, rather than its replacement. The removal of any reference to further tightening 'in the coming months' could actually be interpreted as dovish at the margin. However, we think the disproportionate focus on inflation and cost pressures, rather than growth, in the minutes suggests a hawkish shift largely by omission."
- "We think softening growth is beginning to weigh. We therefore still see a further 25bps hike as more likely."
- "In the coming months, developments in headline wage growth, DMP price expectations and the agents' pay data are now central to the risk of 50bps. If these fail to moderate, an out sized move in August will be more likely than not."
- "Expect a longer rather than necessarily more sudden hiking cycle, with further 25bps hikes in September and November."
- "The near term risks remain skewed in a hawkish direction, though cuts still seem more likely than hikes in 2023."
- Citi continues to pencil in two 25bp cuts in H2-23.

Credit Suisse: Look for four more 25bp hikes in 2022

- "We now expect the BoE to hike rates by a further 100bps in 2022 from 1.25% to 2.25% by year-end (as opposed to 1.50% before). We expect the BoE to hike by 25bps at each of its remaining four meetings, with the risks of a 50bp hike rising if inflation and labour market surprise to the upside."
- Reasons for the forecast change:
    1. The new guidance "indicates that the hiking cycle is likely to continue as inflation and labour data remains strong and raises the risks of a larger move. The minutes said that the scale, pace, and timing of further hikes will be data dependent."
    2. "We expect inflation to continue to be high (at 8.5% in 2022, above the consensus of 8.0%) and labour markets to be resilient."
    3. "we expect GDP to rebound in H2 2022, which should support continued hikes... We previously expected the BoE to pause in August due to its weak growth forecasts. But in June, the BoE judged the impact of the real income squeeze on demand as uncertain, rather than outright negative."

4. "Despite the change in our call, we think that the BoE is likely to be less aggressive than market pricing this year."

- "The slower pace of BoE hiking relative to fundamentals is likely to mean that inflation remains higher for longer… This implies that the BoE may have to ultimately carry on with its hiking cycle for longer. We expect three more hikes in 2023, such that rates reach 3% by the end of 2023."

Daiwa: Look for 50bp in August then 25bp hikes to 2.50% this year. Cuts begin in 2024

- "The MPC appeared more concerned than before about the risks that domestically generated inflation might become entrenched. Indeed, it hinted that hikes of a larger magnitude could gain majority support in future."
- "In light of the new guidance, we also now expect a 50bps hike in August. However, we think Bank Rate is more likely to end the year closer to 2.5%, although much will depend on the BoE's updated forecasts due in August."
- After the 50bp August hike, Daiwa looks for 25bp hikes in the remaining meetings this year to 2.50% before looking for a cut in each of Q1-24 and Q2-24.
- Daiwa also think there is a good chance gilt sales commence in September, but that is dependent upon market stability.

Deutsche Bank: 50bp hikes in both August and September and 25bp in November

- "The MPC abandoned any direct forward guidance in June, opting for a more open-ended tightening stance. Importantly, the Bank put markets on notice… The MPC also doubled down on its inflation mandate."
- "Inflation and labour market pressures have risen, rather than abated over the near to medium term. Both the Bank's Agents and DMP survey highlighted increasing concerns over rising cost pressures, rising pay, and still extreme recruitment difficulties. The breadth and scale of price pressures have become harder to ignore."
- "We now think that the ingredients for larger rate hikes have crystalised, with the broader committee more openly debating the need to go faster in the hiking cycle."
- "We now expect the BoE to hike the Bank Rate by 50bps in August and September, ahead of any active QT (which we expect will begin in Q4-2022). Our call is finely balanced, however. Should inflation and labour market trends start to cool by more than we anticipate, the MPC may opt to continue with its 'steady hand' approach."
- "We still continue to see the Bank Rate moving into modestly restrictive territory.. with the Bank Rate peaking at 2.5% in November 2022 (previously: Feb-23)."
- "A pause thereafter remains our base case, as we expect forward looking inflation data to cool, alongside the labour market. Growth fundamentals should also turn more sluggish into year end"
- "Settling Bank Rate at neutral (1.25% to 2%) may no longer be an adequate response to the current extraordinary inflation wave, particularly given the outsized supply shock grappling the economy."
- "We now expect an easing cycle to begin from mid-23 (previously: Q4- 23), with a 100bps of cuts pencilled in over the following year."

Goldman Sachs: 50bp hikes in August and September with Bank Rate 2.75% by Year End

- The "shift in communication came as a bit of a surprise. On the vote split, we had only expected two MPC members to vote for a 50bps hike, and had thought one member would prefer to keep Bank Rate on hold."
- "We view the reference to scale/pace and the use of the term "forcefully" in the June MPC Minutes as suggesting that 50bps hikes are now under consideration for all committee members. Given three members voted for a 50bps increase in Bank Rate at the June meeting, it now seems a low hurdle for the majority of MPC members to agree to a 50bps hike at the next meeting."
- "We now expect the MPC to vote for 50bps hikes in August and September. This would quickly take Bank Rate into contractionary territory, given our estimate that the neutral rate is 1.75%. We then expect 25bps hikes in November and December, taking Bank Rate to 2.75%. This boosts our terminal rate forecast from 2.5% to 2.75%."
- GS had previously looked for 25bp hikes at each meeting through February 2023.
- "While the timing of asset sales remains uncertain, we continue to expect them to begin at the November MPC meeting."

ING: Look for Bank Rate at 2.00% this year

- "The hawkish spin in the policy statement suggests a 50bp hike is entirely possible in August."
- "Today's decision should, we think, be read as another sign that the Bank isn't going to tighten nearly as much as markets expect... The most recent BoE forecasts from May, which were premised on a terminal rate of 2.6%, showed inflation well below target at the end of the forecast horizon. We'll probably get a similar result when the Bank updates its numbers in August."
- "We imagine the committee will look to raise rates to the 2% area by the end of this year, which is probably roughly consistent with neutral. Whether that takes the form of a 50bp hike in August and follow-up 25bp in the autumn, or simply three consecutive 25bp moves, will depend more on other central banks and what the pound does between now and the next meeting."
- ING had previously looked for Bank Rate at 1.75% this year with 25bp hikes in August and September.

JP Morgan: Looking for 50bp in August; rest of the forecast under review until after CPI

- "The BoE's guidance that it will be "alert to...more persistent inflationary pressures" and will "if necessary act forcefully" is nevertheless hawkish and buys the MPC optionality to deliver 50bp hikes in August and beyond."
- "Despite the above elements of caution from the BoE, there are increasing signs that it is finally opening up to the possibility of needing to raise rates more than just once or twice more to control inflation (a view that it implicitly expressed as recently as May)."
- "The first part of this language is more vague about the next step for policy, and provides the MPC with more optionality… this more open element of the MPC's latest guidance should not be confused with a lack of conviction about rates needing to rise."
- "The second part of the guidance described above has a clear hawkish angle to it, and it is bolder than the MPC has gone before. Unlike at the previous meeting, when the MPC spoke

of "risks of both sides" of its judgement, this time it focussed squarely on the upside risks to inflation and used much more assertive language."

- "We are putting in a 50bp hike for August in anticipation the BoE will not get better news on inflation persistence any time soon."
- "For now we have not made changes to the forecast beyond then, implying that rates will finish the year at 2.25% (2.0% previously). But we will revisit this call and our broader forecast again after seeing next week's CPI report for May. A surprise in core inflation - as seen in several other countries - or a further rotation of pressures towards services - would likely push the BoE to break further away from its gradualist approach seen up until now."

Morgan Stanley: Keep terminal rate at 2% but front-load to three 25bp hikes by November

- "Weak growth data mean that we think another 25bp is likely in August. Still, a weak currency is adding to imported inflation pressures, and the guidance clearly opens the door to a 50bp move."
- "Given the change in guidance, we now front-load our hikes from November 2022 and February 2023 to September and November. Our projected terminal rate remains 2%."

Nomura: Now look for four 25bp hikes in 2022

- "The Bank's forward guidance is far less precise than that of the ECB or the Fed – rather than providing specific clues as to how much and when the Bank may tighten in the coming months, the MPC simply said that the extent and pace of future tightening would depend on the outlook for the economy and inflation."
- "The rhetoric was dialled up a notch, with the Bank saying it may have to act "forcefully" should it be required – a thinly veiled indication that 50bp moves cannot be ruled out,"
- "The Bank has been clear that it thinks high spot inflation will do sufficient damage to real incomes and spending that ultimately inflation will settle well below its target should they pursue the market's expectation of monetary tightening. That is why in our adjusted view today we are forecasting only four further 25bp hikes this year [less than the market]."
- No further hikes expected in 2023 with active gilt sales of GBP10bln/quarter from Q1-23.
- Nomura had previously forecast 25bp hikes in August and November to a terminal rate of 1.75%.
- "The biggest threat in our view is that inflation pressures could stay elevated for longer than the Bank can keep its cool, leading to a more 'forceful' policy tightening"
- "The forecasts in the August Monetary Policy Report (MPR) will be key in determining the next steps from the Bank"

NWM: New language "dampens prospects" of a 50bp August hike

- "The BoE's updated policy guidance feels more nuanced: less explicit or committal in terms of the near-term outlook… but a pledge to 'act forcefully' if inflation pressures are more persistent. That would appear to dampen the prospects of 50bp Bank Rate rise in the near-term, certainly August and probably in September, while opening up the possibility of faster/larger rises further down the line."
- "Whilst the MPC's language in June could be deemed 'hawkish' overall (relative to the guidance in May), we are inclined to view the 'act forcefully' reference as an attempt to provide reassurance around a less hawkish central case."

- “If +50bp Bank Rate increments are materially more likely at the upcoming meetings in August and September, why not convey just that more explicitly?”
- “Our Bank Rate forecasts are unaltered: 25bp rises in August 2022 (1.5%), February 2023 (1.75%) and May 2023 (2.0%), with the risks still skewed towards those 2023 rate rises being brought forward (to September 2022 and November 2022, say).”
- Continue to look for “£50bn of active sales per year, from 2023 onwards.”

Pantheon: The market reaction is not what the MPC intended

- “The MPC's decision to drop its guidance does not fit markets' narrative that it has turned more hawkish.”
- “Be alert for unscheduled comments from the Governor; the market reaction is not what they intended”
- “We continue to doubt that a wage-price spiral will emerge, now that the labour market has stopped tightening, and expect GDP clearly to undershoot the MPC’s new Q2 growth forecast; we look for a 0.7% quarter-on-quarter drop.”
- “The MPC is much more unpredictable than normal, and that the Committee can’t entirely ignore the more aggressive approach now being taken by other central banks, given the sensitivity of U.K. inflation to movements in sterling… we now look for an additional 25bp rate hike in September, following on from the further 25bp increase we expect in August, leaving Bank Rate peaking at 1.75% in this cycle.”

Rabobank: Continue to expect final 25bp hike in August before the MPC pause and reassess

- “There is good reason to expect a grim set of growth, unemployment and inflation forecasts in the next Monetary Policy Report.”
- The “change in guidance has sown confusion: it is not 100% clear why it was made in the first place, and it is not 100% clear if this is dovish (i.e. only forceful action if there is more persistent evidence) or hawkish (i.e. a signal that 50 bps increases are on the cards if m/m rates of inflation don’t fall soon). For now, markets are inclined to believe the latter.”
- “We expect one more 25 bps hike in August, before the MPC takes a pause and re-assesses. The risk is that the market will not allow the central bank to pause. In an environment where almost all other central banks are ramping up their hiking schedules, and where countries want stronger instead of weaker currencies in order to fend off imported inflation, the value of the currency increasingly becomes a risk factor.”

RBC: 50bp in August; 2.50% Bank Rate by year-end

- “The MPC could have been considered as delivering its first ‘hawkish hike’ of the current tightening cycle at [yesterday’s] meeting.”
- “We would highlight in particular the mention of the ‘scale’ and ‘pace’ of rate rises as well as committing to ‘act forcefully’ as marking a much more aggressive tone from the MPC. It was also significant that the two members who had objected to providing even the limited guidance of the last meeting dropped their objections and seemed comfortable with this iteration.”
- “We were struck by how much emphasis the minutes placed on the latest Agents’ report which is giving a much more positive take on the economic backdrop than either the official

or survey data is at present. Instead the minutes appeared to place more emphasis on upside risks to inflation, particularly from pay growth."

- "Having previously seen the MPC raising rates by 25bps in August and pausing thereafter, we now think that the MPC will raise rates by 50bps at its next meeting. We also now think that, the MPC will continue to raise Bank Rate beyond August, albeit by 25bps increments taking Bank Rate to 2.5% by the end of this year."
- "The latest labour market data was quite a bit softer than we expected, hence why at this juncture we only see the MPC being able to deliver one 50bps even if we also see the current MPC tightening cycle lasting for longer than previously. At some point growth concerns will return to the fore and limit the policy space for the MPC."

SEB: 2.00% Bank Rate by end 2022

- "We believe that path for the policy rate is a bit too aggressive since the Bank will also reduce its balance sheet by actively selling bonds. We expect the BoE to raise the Bank rate to 2.00% by year-end 2022 and to 2.50% by year-end 2023."

Societe Generale: Maintain forecast of three 25bp hikes through November with 50bp a risk

- "The MPC's analysis of the conjuncture shows that it views the economy as being more resilient to the cost of-living crisis and the related geopolitical shocks than the market consensus assumes."
- "The forward guidance has been hardened significantly so we conclude that the committee still plans to tighten further during the year."
- "The MPC is still reasonably confident that the inflation shock to date has not crushed consumer demand and companies are also weathering the storm. At the same time, the committee is seeing more and more signs of high inflation persisting"
- "We maintain our forecast of 25bp hikes at the next three meetings to a peak of 2% in November."
- "The market expects GDP to fall in 2Q22, and so does the MPC, but the MPC sees that as driven by temporary factors. The labour market is still tight and generating high wage growth. This assessment has led the committee to beef up its forward guidance to be considerably more aggressive."
- "The key risk is of a 50bp, rather than a 25bp, move at one or more of those meetings."

TD Securities: Stick to four 25bp hikes in 2022 but 50bp "can't completely be ruled out"

- "Comes largely in line with our expectations of a mildly hawkish pivot at this meeting."
- "While [the re-written guidance] reads as a somewhat lower commitment to further rate hikes, the MPC also pledged to act "forcefully" if necessary in response to more persistent inflationary pressures. In this current environment, it's hard not to see this persistence continue."
- "Look for the MPC to continue hiking Bank Rate through to the end of this year, reaching a terminal rate of 2.25% in December. [Yesterday's] statement seems to be a shift in communication strategy by the MPC to signal such a path, and bring guidance closer to market pricing, but data (and forecasts) will remain in the driver seat."
- "The key shift is the intensification of language around acting "forcefully" if necessary… If inflation data continues to march strongly upward, 50bps hikes can't completely be ruled

out, and the August MPR projections might provide the necessary backdrop for such a move."

UBS: 25bp at each meeting this year; 50bp risk in Aug

- "Given the MPC's relatively resilient assessment of underlying activity and the labour market with rising concerns of more persistent inflationary pressures, we now expect the MPC to continue hiking until the end of the year."
- Expect 25bp hikes at each meeting to 2.25% "which we would expect to be the terminal rate in this cycle."
- UBS had previously expected one more 25bp hike in August with the terminal rate at 1.50%.
- "If inflation (22 June; 20 July) and labour market data (19 July) were to show signs of more persistent inflationary pressure, the risk of a 50bps hike in August would rise significantly."

UniCredit: Guidance is "looser" than in May; continue to expect final 25bp hike in August

- "This is looser guidance than what it stated in May… We think the looser guidance reflects that financial markets have gone (much) too far in their expectations"
- "We expect the MPC to hike only once more, by 25bp on 4 August, taking the bank rate to 1.50%. We expect quarterly GDP growth to be zero on average over the next year, and with a high risk of a technical recession. It appears the MPC wants to see that a margin of spare capacity is opening up, particularly in the labor market, before halting rate hikes, in order to be confident that high inflation will not become entrenched. While employment growth is likely to slow, it tends to lag GDP growth by around one or two quarters, so we expect weakness in the labor market to materialize after the summer."

mni Central Bank Watch - Bank of England

June 17, 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	9.0	5.5	↑	4.2	↑					2.52
Core CPI	% y/y	6.2	4.4	↑	3.4	↑					1.50
PPI Output	% y/y	-1.3	-0.9	↓	-0.7	↓					-1.00
Inflation Swap 5y/5y	%	3.82	3.94	↓	3.97	↓					-0.64
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	54.6	58.0	↓	58.1	↓					-0.72
PMI Services	Index	53.4	60.5	↓	58.5	↓					-1.21
Manufacturing Production	% y/y	0.5	5.4	↓	1.2	↓					-1.04
Index of Services	% 3m/3m	0.0	1.3	↓	1.2	↓					-1.73
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	1.40	0.20	↑	0.90	↑					0.91
Mortgage Approvals	K	65.97	73.22	↓	67.70	↓					-1.47
Lending Sec on Dwellings	GBP Bn	4.12	5.85	↓	1.50	↑					-0.35
Nationwide House Prices	% y/y	11.2	12.6	↓	10.0	↑					-0.18
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	-4.9	9.9	↓	-1.2	↓					-0.85
Consumer Confidence	Index	-40.0	-26.0	↓	-14.0	↓					-1.45
Employment Chge 3m/3m	K	177.0	-12.0	↑	149.0	↑					0.93
Ave Weekly Earnings 3m	% y/y	6.8	4.9	↑	4.9	↑					1.28
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	3931	4158	↓	4026	↓					1.02
10-Year Gilt Yield	%	2.46	1.41	↑	0.81	↑					1.55
Gilt Curve (2s-10s)	bps	32.7	37.1	↓	32.5	↑					2.20
GBP TWI	Index	79.15	82.42	↓	81.06	↓					-1.48

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

BOE Sticks To Gradual Tightening For Now

By David Robinson, 16 June

The Bank of England stuck to gradual tightening at its June meeting, delivering another 25-basis-points hike, but hardened its guidance with a promise to do what is necessary to get inflation to target and to "act forcefully" if need be.

While three Monetary Policy Committee members, Catherine Mann, Jonathan Haskel and Michael Saunders, voted for a 50-basis-point increase, all had all done so in May and none are Bank insiders, with everyone else backing 25 bps.

But the BOE toughened its language, promising that it “will be particularly alert to indications of more persistent inflationary pressures, and will if necessary act forcefully in response,” in a formulation which received backing across the MPC.

UNANIMOUS FORCEFUL POLICY WARNING

The new wording is not explicitly data dependent, with no particular data set or sets cited, and no likelihood ascribed to further hikes. The guidance also specifies that “the scale, pace and timing of any further increases in Bank Rate will reflect the Committee’s assessment of the economic outlook” as well as of inflationary pressures.

In May the previous guidance, that a "degree of further tightening in monetary policy may still be appropriate in the coming months," had failed to capture the views either of members who were confident more tightening would be needed or those who were less certain. As a result, it had split the Committee, with two members dissenting from the wording. (See MNI INSIGHT: BOE Rates Guidance Underplays Tightening Bias).

LITTLE NEW DATA

The economic analysis in the June minutes was thin, with the next detailed exploration due in the August forecast round. There were, however, some nuggets. Upside inflation risks may be crystallising, the Bank said, which would suggest that when the Bank completes the August economic projections the MPC could find it has more do more than it previously thought to squeeze inflation back to target.

In its May forecast round, it had projected that assuming unchanged policy inflation would fall to just below 3.0% two years ahead, leaving it with around a percentage point of inflation to crush through monetary policy.

The June minutes and policy summary, however, pointed to a possible intensification of price pressures beyond global commodity and energy market increases.

"Not all of the excess inflation can be attributed to global events" with "domestic factors, including the tight labour market and the pricing strategies of firms" playing a role, the statement said.

The MPC vote took place before the Federal Reserve decision to raise rates by 75 bps was known and the impact of higher rate expectations on monetary and financial conditions will also be factored into the August forecast round.