mni

All Signal, No Noise

MARKET ANALYSIS

BoE Review: August 2022

Summary/Minutes: https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/august-2022
Monetary Policy Report: https://www.bankofengland.co.uk/monetary-policy-report/2022/august-2022

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MNI View: "Forceful" remains

Tim Davis, 5 August

At the August MPC meeting, the Bank of England raised Bank Rate by 50bp to 1.75% - a move that we had assigned a subjective 70% probability to, markets had been pricing at about an 80% probability, and a move that 64% of the 22 analyst previews that we had read before the meeting anticipated. The vote split was 8-1 with only Tenreyro dovishly dissenting (and instead preferring a 25bp hike).

Three notable factors in the "guidance" (which is no longer really guiding…)

There were three notable factors in the language the MPC described to outline the rate outlook (which can no longer really be construed as forward guidance as it's not really guiding any more). First, the Bank tried to play down expectations that they had already agreed policy for future meetings but noting that:

"Policy was not on a pre-set path. The Committee would, as always, consider and decide the appropriate level of Bank Rate at each meeting."

The second change is that the language changed from discussing "further increases" in Bank Rate to "changes" in Bank Rate. We think this language could have been added to ensure that all nine members of the MPC signed up to the "guidance" with Tenreyro stating in the Minutes that "Bank Rate might already have reached the level consistent with returning inflation to the 2% target in the medium term." For her, therefore, it may not be obvious that the next move to Bank Rate will be an increase.

Finally, the "forceful" language was maintained, something that had not been expected by most market participants:

"The Committee would be particularly alert to indications of more persistent inflationary pressures, and would if necessary act forcefully in response."

This would have been expected to illicit a hawkish market response in isolation

Ahead of the meeting, the majority of market participants, including ourselves, would have expected a 50bp hike (which wasn't fully priced in) with an 8-1 vote split (7-2 was more expected) with the "forceful" language kept would have been construed as hawkish, and have been accompanied by a market reaction to match this stance. Indeed, we have seen an increase in the number of analysts forecasting a 50bp September hike from 5/23 to 13/23 – more than half. The MNI Markets team again assigns a subjective 70% probability of a September 50bp hike. However, going into the meeting, markets had been pricing around 45bp for August and a further 46bp for September so the MPC meeting did little to shift this probability (it has since shifted up to around 48bp following the strong US employment report).

Analysts expecting higher rates in 2022…

The BOE reviews we have read also now look for a median of 2.50% (previously 2.00%) while 92% of analysts expect Bank Rate to end 2022 in a 2.25%-2.75% range (prior to the meeting 87% had expected a 1.75%-2.50% range with a median of 2.00%). Market pricing following the decision fell to a trough with around 100bp of hikes priced in for the remaining three MPC meetings of the year, and this had increased to around 106bp ahead of the US employment report and is now up to around 120bp at the time of writing. Prior to the decision, markets had been pricing around 160bp cumulatively (including August). So this fell back a bit yesterday, but following the US employment report is actually higher than prior to the MPC announcement.

…but market expectations for 2023 fell, and analyst expectations little changed

However, what is notable is that even though analyst expectations for Bank Rate in 2022 increased, expectations by the end of 2023 remained largely unchanged. This can partly be accounted for with more analysts now expecting 2023 cuts – 8/18, up from 4/18 prior to the MPC decision. While analyst expectations were unchanged, market expectations were pared back and a cut is also now fully priced by the end of 2023 by markets.

Bank’s forecasts led to medium-term pessimism

So why the medium-term pessimism? Firstly the Bank’s forecasts on both GDP (recession with five quarters of contraction) and second, the Bank’s forecasts on inflation (0.76% based on market rates and 1.27% based on constant rates). This revealed two important things – first, that the MPC acted “forcefully” in spite of these growth concerns – which underlines its reaction function has switched from trying to balance inflation and growth risks to paying much more attention to stopping near-term inflation passing through to domestic inflation. The MPC has shown its cards – it can still increase the pace of tightening despite forecasting a recession.

Second, the BoE is accepting of the economy’s fate. Both the ECB and Fed are both continuing to communicate that they are trying to conduct monetary policy in a way that still sees a soft landing as the most likely outcome – the Bank of England’s forecast imply that it has almost given up on this dream.

We think the market is pricing too much for this year

The MNI Markets team still thinks the market is pricing too much by year-end. We think that the most likely outcome from here would be a 50bp September hike followed by a 25bp November hike before signs of stress start to appear in the labour market and across the wider economy. Inflation is still expected to peak in October following the increase in the consumer energy price cap (which the Bank now estimates will see a 75% increase following consultation with Ofgem), and so by the time of the December meeting the MPC will be hoping that inflation prints will have peaked.

Markets estimates of neutral rates have drifted higher

One interesting addendum to this is that the estimate of the neutral rate in Bank of England's Market Participants Survey despite staying at 2.00% on the median measure now sees the 75th percentile at 2.50% (previously 2.00%) with the 25th percentile up to 2.00% (from 1.50%). So most market participants still judge Bank Rate to be below neutral at 1.75%, and estimates of the neutral rate are drifting higher, which should imply that Bank Rate can be moved higher than previously expected before impacting growth so much.

Balance sheet: Confirmatory vote expected in September

Despite not (quite) committing to beginning gilt sales in September, the Bank of England provided all the details and a rough start date for the gilt sales programme. The programme will still need to be rubber stamped at the September MPC meeting but will have the following features:

- Active gilt sales will be GBP10bln/Q. We estimate that net supply of conventional gilts by the DMO has been running at about GBP10bln/month recently, so think will be increased by around 30% - more so if there is a fiscal stimulus programme that needs to be funded simultaneously.
- Sales will be distributed evenly amongst the same buckets used for purchases I.e. 3-7 years, 7-20 year, 20+years
- Sales will not take place on the sale day as DMO auctions.
- Gilts sold by the DMO at auction will not be eligible to be sold by the BOE within 2 weeks either side of the DMO auction.
- Auction of each maturity sector once per fortnight - usually on Monday or Thursday to avoid potential clashes with DMO auctions.
- The bar to changing the modalities of the programme will be high outside of annual reviews.
- Due to start in late September, subject to confirmatory vote at the September MPC meeting.

This purchase pace is broadly in line with market expectations, but we are a little concerned about liquidity in the market, which is already low and may be affected as the private sector is required to increase its holdings of gilts.

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.

August Questions and Answers

1) Was the Bank Rate raised, and if so by how much? Yes, by 50bp to 1.75%.
2) Number of members voting for a 25bp hike? 1 - Tenreyro
3) Number of members voting for a 50bp hike? 8
4) Number of members voting for a decision other than 25/50bp hike (and if so what?)? Zero
5) Did the MPC announce a likely start date for the active sale of gilts (and if so when)? Yes, shortly after the September meeting, before the end of the month. A confirmatory vote will be held at the meeting.
6) Did the MPC announce the pace of gilt sales? Yes, GBP 80 bln in the first year, with GBP 10 bln a quarter in active sales.
7) Did the MPC drop its previously formulated June guidance? No, the only difference was the use of "the scale, pace and timing of -any changes- in the Bank Rate ... reflect the outlook" vs any -further increases.
8) Did the MPC still point to the possibility of "forceful" action if required? Yes
9) UK CPI rate in two years' time at market/constant rates (mode)? 2.00% / 2.53% in 2024 Q3
10) UK CPI rate in three years' time at market / constant rates (mode)? 0.76% / 1.27% in 2025 Q3
11) How were the risks to the CPI forecasts described? Two way, largely based on energy price developments.
12) UK GDP forecast for Y/Y Q3-2023/Q3-2024 at market rates (mode)? -2.07% (2023 Q3) / -0.04 (2024 Q3).

Summary of Analyst Views

- 13/23 (57%) of analyst previews that we have read look for a 50bp hike in September while the remainder expect a 25bp hike (10 analysts, 43%).
- Prior to the meeting 5/23 had looked for 50bp (22%), 15/23 for 25bp (65%) and 3/23 for rates unchanged (13%) – or to look at this another way 5/23 had looked for 2.25% (22%), 10/23 for 2.00% (43%), 5/23 for 1.75% (22%) and 3/23 for 1.50% (13%).
- 17/22 (77%) of analysts expect a follow up 25bp hike in November.
- NatWest Markets looks for a further 50bp hike in November (following 50bp in September).
- CIBC, ING and JP Morgan all look for a 50bp September hike, but no November hike.
- Barclays is the only analyst looking for a final 25bp September hike.
- Bank Rate at end 2022 (out of 23 analysts): The median is 2.50% (previously 2.00%) while 92% of analysts expect Bank Rate to end 2022 in a 2.25%-2.75% range (previously 87% had expected in a 1.75%-2.50% range).
    - NatWest Markets looks for 3.00% (4% up from 0%)
    - 5 analysts look for 2.75% (22% up from 4%)
    - 8 analysts look for 2.50% (35% up from 17%)
    - 8 analysts look for 2.25% (35% up from 26%)
    - Barclays looks for 2.00% (4% down from 30%)
    - No analysts look for 1.75% (0% down from 13%)
    - No analysts look for 1.50% (0% down from 9%)
- Bank Rate at end 2023 (out of 18 analysts): The median looks for 2.375% (previously 2.25%) with 90% of analysts expecting Bank Rate in a 2.00-2.75% range – previously 88% in a 2.00-2.75% range. As we discussed in the 2022 summary of views, we are generally starting 2023 from a higher base.
    - Credit Suisse expects 3.00% (5% from 6%)
    - 5 analysts expect 2.75% (25% from 29%)
    - 4 analysts expect 2.50% (20% from 12%)
    - 3 analysts expects 2.25% (15% from 12%)
    - 6 analysts expect 2.00% (30% from 35%)
    - Citi expects 1.75% (5% from 6%)
- 8/18 analysts expect cuts in 2023 (up from 4), with most expecting cuts to not begin before August (with the exception of Nomura who looks for the first cut in May 2023).
- Only 3 analysts expect hikes in 2023 (down from 4): Credit Suisse to 3.00% in Q1-23, Bank of America in February and May to 2.75% and JP Morgan in August and November to 2.75%.

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

Institution	Pre-August meeting	Post-August meeting
NatWest Markets	25bp hikes in Aug22, Nov22 and Feb23 to 2.00% with risks skewed more to additonal 25bp hikes rather than 50bp hikes. GBP35bln/Y active gilt sales ann Sep22, start Oct22.	**Bank's reaction function has change. 50bp hikes in Sep22 and Nov22 with 25bp in Dec22 to 3.0% terminal rate. 25bp cuts in Q4-23, Q1-24 and Q2-24 to 2.25% end of forecast.**
Credit Suisse	25bp Aug22 hike with 5-4 vote (Pill joins dissenters). Expect 25bp hikes in Sep22, Nov22, Dec22 to 2.25% then three hikes in 2023 to 3.00%.	**50bp Sep22 hike then 25bp hikes in Nov22, Dec22 and Q1-23 to 3.00% terminal rate. "The bar for the BoE to reverse hikes is high".**
Goldman Sachs	50bp hike with unanimous vote. Then further 50bp hike in Sep22 followed by 25bp in Nov22 and Dec22 to 2.75%. Gilt sales of GBP15bln/Q start Nov22 (risk of Sep22).	50bp hike in Sep22 followed by 25bp in Nov22 and Dec22 to 2.75%.
UBS	25bp hike in Aug22 but "significant risk" of 50bp. Look for further 25bp hikes in Sep22, Nov22 and Dec22. 50bp hike in Aug22 increases chance of further 50bp hikes.	**50bp hike in Sep22 then 25bp hikes in Nov22 and Dec22 to 2.75% before remaining on hold through 2023.**
Rabobank	"Stubbornly" stick to 25bp Aug22 hike. If Truss becomes PM and immediately cuts taxes, pressure on BoE to continue hiking. GBP100bln gilt BS reduction vote at Sep22 meeting.	**50bp hike in Sep22 and further 25bp hikes in Nov22 and Dec22, partly due to tax cuts and energy bill rebates from Truss. Pencils in 25bp cuts in Aug23 and Sep23.**
SEB	50bp hike in Aug22. Further 25bp hikes in Sep22, Nov22, Feb23 and May23.	**100bp of further hikes across Sep22, Nov22 and Dec22.**
Société Générale	50bp hike with unanimous vote, further 50bp in Sep22 then 25bp in Nov22 to peak of 2.50%. Expect 6-month programme to sell GBP60bln gilts.	50bp hike in Sep22 and further 25bp hikes in Nov22 and Dec22 to a peak of 2.50%. "Difficult to see" tightening in 2023 as wage demands cool in the face of the downturn."
Danske		**Expect 50bp hike in Sep22 and 25bp in Nov22 with further tightening needed to cool extraordinarily high inflation. No hikes beyond Nov22 with possible rate cuts in 2023.**
Berenberg	50bp hikes in Aug22 and Sep22 with Bailey voting for the larger hikes. Further 25bp in Nov22 to 2.50%. Then 50bp of cuts in H2-23 and further 25bp cuts in H1-24 to 1.50%.	Guidance "suits call" for a 50bp hike in Sep22 with a more uncertain outlook thereafter. Berenberg still looks for final 25bp Nov22 hike but with upside risks. Cuts from H2-23.
Deutsche	50bp hike with 7-2 vote in Aug22, further 50bp in Sep22 then 25bp in Nov22 to terminal 2.50%. Risk of further tightening if fiscal support needed to offset injection of demand.	50bp hike in Sep22 with further 25bp hike in Nov22 to 2.50% terminal rate. Four cuts between Q3-23 and Q2-24 taking Bank Rate to "more neutral level of 1.5%".
Nomura	50bp hike in Aug22; 25bp hikes in Sep22 and Nov22 to leave Bank Rate at 2.25%. Active gilt sales announced Sep22, start in Q4-22 at GBP10bln/Q. 25bp cuts in May23 and Aug23	**"Few barriers" to another 50bp hike in Sep22. Final 25bp hike in Nov22 to 2.50%. "Modest" rate cuts in 2023 - 25bp in both May23 and Aug23.**
JP Morgan	50bp Aug22 hike with 7-2 vote with 25bp dissents. 25bp hike in Sep22 conditional on BoE downgrading guidance, otherwise 50bp. Slow to 25bp pace from Nov22 (or slower).	**Sep22 close call between 25bp and 50bp but "now think 50bp is more likely." Thereafter expect pause from Nov22 as there is clearer evidence of weakening growth.**
CIBC	50bp hike with 7-2 vote with further 50bp hike in Sep22 before pausing in Q4-22.	Expect further 50bp hike in Sep22 into modestly restrictive territory, then on hold. Risk is substantial fiscal expansion that "may require an additional monetary policy offset."
ING	50bp in Aug22 due to BoE communication and market pricing - not changes in data. Pencil in 25bp in Sep22 to 2.00% terminal rate but wouldn't rule out additional 25-50bp.	**"Another 50bp hike in September seems plausible". "We think the Bank's next rate hike in September could be the last."**
BNP	50bp hike in Aug22 with 25bp hikes in Sep22, Nov22 and Dec22 to terminal 2.50%. If Truss is PM and substantially eases fiscal pol, hikes in 2023. Expect guidance repeated.	25bp hikes in Sep22, Nov22 and Dec22 to terminal 2.50% but debate will be between 25bp and 50bp hikes (rather than hike or no hike).
RBC	50bp Aug22 hike; Bailey's speech "as close as MPC language can to explicitly signalling a 50bp increase." Further 25bp hikes in Sep22, Nov22, Dec22 to 2.50%."	"Due to a combination of the weakening growth outlook and changing personal on the Committee... the MPC will revert to 25bps moves at subsequent meetings."
Daiwa	50bp Aug22 hike "with signals of further monetary tightening ahead too (possibly of a similar magnitude)." Further 25bp Sep22, Nov22, Dec22 to 2.50%; cut to 2.00% in 2024.	Maintain forecast that Bank Rate will end the year at 2.50%.
Bank of America	50bp hike with 7-2 vote with 25bp dissents. Further 25bp hikes in Sep22, Nov22, Feb23 and May23. GBP5bln/month active gilt sales from Oct22 confirmed in Sep22.	Expect 25bp hikes in Sep22 and Nov22 but "the risks now skew to 50bp moves". Further 25bp hikes in Feb23 and May23 on fiscal stimulus. Bank Rate at 2.75% before 3Q24 cut.
TD Securities	50bp hike in Aug22 with 3-4 dissenters for 25bp. Further 25bp hikes in Sep22 and Nov22 to terminal rate of 2.25%. Active gilt sales announced Sep22 at GBP5bln/month from Oct22	Expect 25bp hikes in Sep22 and Nov22. "The tone of the hike was fairly downbeat, and little direction was provided for upcoming policy changes." Expect 50bp of cuts in 2024.
Citi	Base case for 25bp hike in Aug22 but potential for at least one 50bp hike in 2022 with Bank Rate at 2.50% by year-end. Two 25bp cuts in 2023, but growing risks to this call.	**25bp hikes in Sep22 and Nov22 to 2.25% before on hold; debate to be zero or 25bp hikes. 25bp cuts in Aug23, Nov23 and Mar24 to 1.50%.**
Morgan Stanley	60% probability of 25bp hike in Aug22 with further 25bp hikes in Sep22 and Nov22 to 2.00% peak. Active gilt sales confirmatory vote in Sep22 at GBP10bln/Q pace.	**Coin toss decision in Sep22, but stick to 25bp hike. Look for final Nov22 hike to 2.25% as global CBs pivot. Introduce a 25bp cut in Nov23 back to 2.00%.**
Pantheon	25bp hikes in Aug22 and Sep22, then Bank Rate on hold at 1.75% through end-2023. Forecast for 3-year CPI at market rates "even lower than May's 1.3%."	**25bp hikes in Sep22 and Nov22 to 2.25% "when the stance of fiscal policy should be clear." Cut in late 2023 to 2.00% with a "good chance" of a further cut in 2024.**
UniCredit	25bp hike in Aug22 but with 3-4 dissenters voting for 50bp. Expect this to be the last hike of the cycle but "risks are now clearly skewed to the upside".	**Pace of hikes 25bp from Sep22 and to stop hiking by the end of this year "when inflation should be showing more convincing signs of peaking and the labor market has softened."**
Barclays	50bp hike with 7-2 vote in Aug22, 25bp in Sep22 and on hold thereafter due to slowdown in activity. Upside risks to H2-23 as "cost of living crisis passes and momentum rebuilds."	25bp hike in Sep22; 50bp "also plausible". Think BoE estimates neutral rate at c.1.25%. Disagree Bank would continue hiking and then need to cut when already in recession.

Source: Analyst previews and MNI

Note: Sorted by magnitude of next hikes, then hikes this year, then 2023 outlooks

Analysts' Key Comments (A-Z)

Bank of America: Upside risks to 25bp hikes in Sep/Nov; Bank Rate at 2.75% by May

- "The BoE toned down guidance by saying policy was not on a "pre-set path". But the guidance was more hawkish than we expected because it left in "forcefully". We expect 25bp rate hikes in September and November but the risks now skew to 50bp moves in our view."
- "Why is the BoE hiking faster while expecting recession? Because inflation peaks higher and signs of persistence have risen. So the BoE believes it needs to deepen and/or prolong the forthcoming recession with rate hikes to raise spare capacity faster and bring inflation back to target."
- "We expect 2 more 25bp rate hikes in 2023 (February and May) because we expect more fiscal stimulus. We see a low likelihood of rate cuts, as the market prices, at that point given inflation, on the BoE's forecasts, still in double digits in 3Q 2022. We expect the BoE to hold Bank Rate at 2.75% through 1H 2024 before a 25bp cut in 3Q 2024."

Barclays: Final hike in September – 25bp is baseline but 50bp is plausible

- "The August MPC delivered a radical change in forecast: its views are materially out of consensus (higher on inflation, lower on growth) and closer to our view of a worst case than an average scenario."
- "We maintain our call that the BoE will hike again in September and then pause. Our baseline is for a 25bp hike in September, but a 50bp is also plausible."
- "The MPC produced forecasts showing inflation falling below target at unchanged Bank Rates. That suggests the Bank has entered "restrictive territory"... We also infer from this that the Bank's current estimate of a neutral rate is c.1.25%. At this neutral level and with inflation forecast to undershoot neutral at unchanged rates, the question could soon be whether the Bank will have to cut rates during 2023 to steer the economy back to equilibrium."
- "We disagree with the market expectation that the Bank would continue hiking for another 75-100bp with the economy already in recession only to start cutting six months after the last hike. In our base case, the policy rate remains at 2% in the foreseeable future."

Berenberg: Stick to 50bp hike in September and 25bp in November with cuts from Q3-23

- "The guidance suits our call for a 50bp hike in September. Thereafter, the outlook remains uncertain. We look for a further 25bp in November but a pause in December amid evidence that inflation has peaked and that underlying price pressures are weakening. We look for the bank rate to rise to 2.5% by November… Judging by the August guidance, the risks to this call are tilted to the upside."
- Look for quarterly cuts from Q3-23 back to 1.50% Bank Rate at end Q2-24.

BNP: 3x25bp more hikes this year – debate will be 25bp vs 50bp

- "The BoE is not done fighting inflation though, and we still see three more 25bp hikes this year."
- "We do not think today's move sets the precedent for a series of more aggressive moves. Indeed, we expect a downshift to 25bp hikes from September's meeting."

- "See continued scope for tightening and expect three further 25bp hikes this year, taking Bank Rate to 2.5%, with the debate at upcoming meetings likely to remain centred around the extent of tightening needed (i.e. a choice between 25bp or 50bp moves) rather than whether it is needed at all."
- "With data likely to remain the key determinant of policy, we will be closely watching wages and inflation expectations data to see whether this indicates even greater inflation persistence – the key variable of interest for the MPC. For example, should there be a reacceleration of measures of inflation expectations, which have been easing recently, we would not rule out another 50bp hike."
- "Further ahead, we think its medium-term forecasts for both growth and inflation will prove overly pessimistic and thus imply too much easing."

CIBC: 50bp in September as the MPC continued to reference "forcefully"

- "As the bank maintained its reference to acting "forcefully", this maintains our presumption of looking for another 50bps at the September MPC."
- "As the UK economy is on course for a protracted period of negative growth, from Q4 onwards, we would expect the ability of firms to easily pass on price gains will soon dissipate."
- "We expect the BoE to take the bank rate only modestly into restrictive territory, 2.25%. Neutral is estimated to be between 1.50-2.00%."
- "A substantive fiscal expansion, potentially in the region of £30-35bn, remains an existential risk that may require an additional monetary policy offset."
- On QT: "in view of another prospective hike and in view of current uncertain market conditions we would expect the bank to be cautious as regards the start of active QT. Indeed selling Gilts back into the market just as the new Prime Minister looks set to consider an unfunded fiscal ease seems imprudent."

Citi: 25bp hikes in September and November, but debate will be zero or 25bp

- "While the MPC have given us little to go on, we are doubtful this reflects an enduring pivot. Instead, the medium term inflation forecasts are among some of the weakest ever seen for the BoE. The upward skew to the inflation profile has gone. The MPC is no longer guiding towards further hikes."
- Citi expects 25bp hikes in September and November to 2.25% (previously had expected 2.50% by end-2022), with cuts in August 2023, November 2023 and March 2024.
- "The committee now notes 'changes' in policy rather than 'increases' will depend on the economic data."
- "The committee did continue to refer to the potential for further forceful moves should evidence of more persistent inflation continue to intensify. The latter do mean outsized moves will remain a risk throughout the winter. However, in the near term we see the risk to the MPC's forecasts as to the downside. In our view, the risks increasingly skewed towards the 0-25bps range."

Credit Suisse: More front-loading of rate hikes to 3.00%

- “We now expect the BoE to front-load rate hikes and bring forward our rate hike forecasts. We expect the BoE to hike rates by another 100bps from 1.75% to 2.75% by end-2022 (50bps in September, followed by 25bps in November and December), compared with 2.25% previously. We then expect one more 25bp hike such that rates reach 3.00% in Q1 2023, bringing an end to the hiking cycle sooner than previously expected (Q2 2023).”
- “This meeting marks a change in the BoE’s stance to a more forceful reaction to inflationary pressures. This has opened the door to more outsized moves in the near term.”
- “The BoE delivered an outsized hike at the same time as forecasting a recession, showing tolerance for recessionary risks... The BoE is thereby acknowledging that a recession is likely to be the price to pay to bring inflation under control.”
- “The bar for the BoE to reverse hikes is high – the BoE will need to see conclusive evidence of inflation coming down significantly before reversing course (which in its forecasts happens only in Q4 2023).”

Daiwa: Bank Rate at 2.50% by year-end

- “The domestic political backdrop and likelihood of extra fiscal support when a new Prime Minister is appointed in September could pose an additional inflationary impulse.”
- “We currently maintain our forecast that Bank Rate will end the year at 2.50%.”

Danske: Another 50bp in September and 25bp in November before stopping

- “One of the key takeaways from the Monetary Policy Report is that the BoE now projects a recession by Q4 2022 based on market pricing… This deviates from other central banks, who still communicate that a soft landing is possible.”
- “We change our Bank of England call now expecting another 50bp rate hike in September and another 25bp in November, recognising that the Bank of England is probably not ready to fully stop hiking just yet despite rising recession risks. Further tightening is needed in order to cool extraordinarily high inflation pressure.”
- “We expect no rate hikes beyond the November meeting (although another 25bp rate hike in December seems like a close call at this point) and believe markets will start to focus even more on possible rate cuts in 2023 when the UK actually falls into recession.”

Deutsche: 2.50% Bank Rate by Nov; cuts start Q3-23 to 1.50% by Q2-24

- Three major takeaways from the meeting:
    1. “Risk management considerations matter more than recession fears”
    2. “The Bank has officially put less stock in its medium-term projections”
    3. “The forward guidance leaves all options on the table”
- “We continue to see another 50bps hike in September – though we acknowledge that our call remains finely balanced. Much will depend on the strength of forthcoming price and wage data – particularly on the Bank's next DMP survey.”
- “We also continue to see a 25bps in November, taking the Bank Rate to a peak of 2.5%.”
- “We still anticipate the Bank to cut rates as forward looking price/wage metrics start to ease meaningfully around summertime next year. We continue to expect four rate cuts between Q3-23 and Q2-24, taking the Bank Rate down to a more neutral level of 1.5%.”

- Deutsche currently pencils cuts in for August 2023, November 2023, February 2024 and May 2024.

Goldman Sachs: 50bp in September then 25bp in November and December to 2.75%

- "On the path ahead, the MPC retained both the "scale, pace and timing" and "act forcefully" language, and Governor Bailey noted that all options were on the table at the next meeting. As such, we are comfortable with our call for another 50bp hike in September."
- "We look for the BoE to tighten less aggressively than the Fed, with only two more 25bps increases in Bank Rate after September. We leave our BoE call unrevised, with Bank Rate expected to increase to 2.25% in September, 2.5% in November, and reach our estimate of terminal, 2.75%, in December."

ING: Final 25bp hike in August (50bp plausible) then on hold through end-2023

- "The fact that the Bank is stepping up the pace of rate hikes while also forecasting a meaningful recession shows just how worried it is that worker shortages and supply issues could keep inflation elevated even as the economy weakens."
- "Another 50bp hike in September seems plausible."
- "For now, we think the Bank's next rate hike in September could be the last. The window for further hikes further appears to be closing, not least because outside of the jobs market, there are signs that some of the key inflation drivers may be starting to ease."
- "If market conditions improve, we expect sales to occur at the earliest in September, but we think it will take much longer to say with any degree of confidence that the market can accommodate this amount of gilt sales without posing risks to its functioning."

JP Morgan: 50bp more likely in September, then pause to August 2023 before more hikes

- "With gas prices having moved higher, there is a clear risk of further second round inflation effects, and the BoE's surveys are signaling higher wage inflation. September looks like a close call between 25bp and 50bps, but we now think 50bp is more likely"
- "While the continued inclusion of the word "forceful" is not a commitment, it suggests the bar for another 50bp hike in September is not particularly high. It is notable the BoE again made it clear that its internal surveys are suggesting that wage growth will continue to strengthen more than had previously looked likely, with firms having relative ease in passing on such costs."
- "We then expect the BoE to pause in November (previously 25bps) as it sees clearer evidence of weakening growth domestically and elsewhere in Europe, and some clearer signs of a weakening labor market. That would leave rates still at 2.25% by year end, but a little more front loaded"
- Further 25bp hikes in August 2023 and November 2023 to 2.75%.

Morgan Stanley: Add a cut in 2023 to forecast

- "It is not entirely clear what marginal information pushed the BoE to increase its pace of tightening... Another upwards near-term revision to inflation forecasts – due to gas prices – likely prevailed in the MPC discussions."
- "It is hard to call the September decision. We see another coin toss decision between a 25bp and a 50bp hike, but we stick to our call of a 25bp move, on balance. As globally, we see

central banks pivoting over 4Q22, we see a dovish November meeting and a final 25bp hike then. We now introduce a cut at the end of next year, at the November meeting."

NatWest Markets: "Perform major surgery" on rate forecast and look for 3.00% by December

- "The BoE's reaction function appears to have changed. The previous approach of policy gradualism has been abandoned, with the Bank seemingly more sensitive to near-term inflation outturns and risks (as opposed to medium-term inflation forecasts)."
- "There is no longer any meaningful 'trade-off'. . . no ifs, no buts . . . a recession is unavoidable"
- "We perform major surgery on our Bank Rate forecast: +50bp in September to 2.25%, +50bp in November to 2.75% and +25bp to 3.0% in December (our previous 'terminal rate' forecast was 2.0%)."
- "Although market pricing heading into the meeting was clearly more hawkish than our base case, this is not obviously a dovish pivot from the BoE. Today's meeting raises our expectation of terminal policy rates to more in line with market pricing, and probably leaves the skew of risks to the upside, as long as inflation remains high."
- NWM still sees cuts beginning in 2023 with 25bp cuts in Q4-23, Q1-24 and Q2-24 to 2.25% (the end of the NWM forecast horizon).

Nomura: "Few barriers" to 25bp in September, but continue to look for 2023 cuts

- "We have adjusted our view and now see few barriers to another 50bp hike on 15 September (versus our previous view of 25bp). That would then take rates to 2.25%, following which a final 25bp hike in November would leave rates at a terminal level of 2.50% before modest (2x25bp) rate cuts in mid-2023."
- The "decision shows that the Bank sees neither i) a protracted recession… nor ii) a sizeable expected undershoot of inflation below its target at the end of the forecast horizon, as constraints to speeding up the pace of monetary tightening. The burden of proof appears to have shifted – for the economic data to deteriorate meaningfully enough over the coming month and a half in order to stop the Bank from what now feels like the default option of raising rates by another 50bp at its September meeting."
- "In terms of justifying our 2023 rate cut call – maintaining rates through a slowdown is one thing, but to do so through a 2-year recession is likely to prove too much of a stretch."
- "The Bank seems less wedded to its forecasts than normal, having specified multiple possible projection profiles this time: a baseline, plus another based on energy prices following the futures curves after six months, and a further projection based on "greater persistence in domestic price setting".

Pantheon: 25bp hikes in September and November then pause before first cut in late 2023

- "Concerns about persistence in domestic price setting, and looser fiscal policy, will spur further hikes."
- "The MPC's communications and new forecasts imply the rate hiking cycle does not have much further to run.
- "The MPC continued to state that the "scale, pace and timing of any further changes in Bank Rate would reflect the Committee's assessment of the economic outlook and inflationary

pressures". The word "any" suggests that at least some MPC members are unsure whether interest rates need to rise further."

- "The MPC's decision to insert a new line that "policy is not on a pre-set path" suggests that it is uncomfortable with markets' pricing of a high likelihood of 50bp hikes at the next two meetings."
- "We now expect the MPC to raise Bank Rate to 2.00% in September and 2.25% in November, and then to pause."
- "We then see Bank Rate being held at this above-neutral level until late 2023, when it should be beyond doubt that a wage price spiral has not formed. We then anticipate a small reduction in Bank Rate to 2.00% in late 2023, with a good chance of a further cut to 1.75% in 2024, provided fiscal policy isn't too stimulative in the run-up to the next election."
- Pantheon had previously expected 25bp hikes in August and September before Bank Rate was held at 1.75% through 2023.

Rabobank: "More hikes, more cuts"

- "The 50 bps hike hasn't yet been very effective… It's an initial market reaction, and volatility is elevated, but it could be interpreted as a vote of no confidence in the UK economy."
- "It remains to be seen whether 'at least £30 billion' [pledged by Truss], which amounts to nearly 1.5% of GDP, will be deployed, but we expect a combination of significant tax cuts and energy bill rebates to be put in place this autumn… this will add to inflation."
- "We now expect 100 bps extra rate increases this year: 50 in September, 25 in November and 25 in December. There is a high risk this tightening will be reversed from 2023 H2 onwards."
- Rabobank pencils in 25bp hikes in August 2023 and September 2023.
- Rabobank had previously expected no further hikes after August in its base case.

RBC: Will revert to 25bp hikes at subsequent meetings

- "The insertion [that policy is not on a pre-set path] is likely intended to reflect the more data dependent, meeting-by-meeting approach, the MPC are now following in setting policy."
- "For the moment we retain our call that today's larger move in Bank Rate was a one-off and that, due to a combination of the weakening growth outlook and changing personal on the Committee (today was the last meeting of the MPC's most hawkish member, Michael Saunders), the MPC will revert to 25bps moves at subsequent meetings. There is also, we now think, a higher hurdle for further upward surprises on CPI inflation from here."
- RBC's previous forecast saw 25bp hikes in each of the remaining meetings this year to 2.50%.

SEB: Expect 100bp more hikes by year-end

- "Expect the BoE to raise the Bank rate again on September 15, November 3 and December 15 by a total of 100bps reaching 2.75% by year-end. This is expected to be the peak in the BoE rate hiking cycle."
- "The Bank's QT policy, now including active selling of gilts, makes monetary policy somewhat less expansionary."

Société Génerale: Stick to forecast of 50bp in Sep and 25bp in Nov to 2.50% peak

- “We confirm our existing forecast of a further 50bp increase in September followed by a 25bp hike in November to a peak of 2.5%.”
- “The Bank prefaced its forecasts today with a statement about the unusually high level of uncertainty surrounding the economic outlook and thus its forecasts. This means that we should be ready for the Bank to make significant and quite sudden forecast changes, and so in policy, in response to any change in circumstances.”
- “Especially as the MPC now predicts a recession throughout next year, we find it difficult to see the committee voting to continue tightening policy next year because we expect to see wage demands cool significantly next year as bargaining power falls in the face of the downturn. This will reassure the committee that second round effects will fade.”
- On QT: “The profile of maturing gilts is lumpy… so it seems a bit odd to have a steady £10bn per quarter of projected sales over that period if the aim is to have a smooth reduction in the stock.”

TD Securities: Expect 25bp hikes in September and November to 2.25% then cuts in 2024

- “The tone of the hike was fairly downbeat, and little direction was provided for upcoming policy changes. Forward guidance was tweaked materially, and Governor Bailey stressed that the MPC is not on a preset path of hiking in 50bps increments.”
- “We leave our forecast for Bank Rate unchanged: we expect 25bps hikes at both the September and November meetings, reaching a terminal rate of 2.25% in November.”
- Expect 50bp of cuts in 2024.

UBS: Another 50bp in September, then two more 25bp hikes to 2.75% by year-end

- Given the “hawkish voting outcome and the MPC's focus on wage and price setting dynamics, which are unlikely to show significant signs of easing in the next month, we expect the MPC to deliver another 50bp hike on 15 September followed by two 25bp hikes in November and December. This would bring Bank Rate to 2.75%.”
- UBS then expects Bank Rate to remain on hold through 2023.
- UBS had previously expected 25bp hikes in August, September, November and December to 2.25%.
- “The scale and pace of hikes, however, will also depend on who will succeed Boris Johnson as the next Prime Minister and, in particular, their fiscal policy stance.”

UniCredit: Look for 25bp hikes through the remainder of the year

- “While the MPC is clearly hawkish now, a likely more pronounced weakening of economic activity in the coming months will cause the MPC to step down the pace of rate hikes in September to 25bp.”
- “We think it’s likely the MPC will stop hiking by the end of this year when inflation should be showing more convincing signs of peaking and the labor market has softened.”
- Previously UniCredit had expected a 25bp hike today to be the last in the cycle but had noted that risks were “clearly skewed to the upside".

Central Bank Watch - Bank of England

August 05, 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	9.4	7.0	↑	5.4	↑					1.99
Core CPI	% y/y	5.8	5.7	↑	4.2	↑					0.73
PPI Output	% y/y	-1.3	-0.9	↓	-0.7	↓					-1.00
Inflation Swap 5y/5y	%	3.73	4.11	↓	3.96	↓					-1.60
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	52.1	55.8	↓	57.3	↓					-1.52
PMI Services	Index	52.6	58.9	↓	54.1	↓					-0.95
Manufacturing Production	% y/y	2.3	3.4	↓	0.3	↑					-0.02
Index of Services	% 3m/3m	0.1	0.7	↓	1.5	↓					-1.40
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	1.78	1.31	↑	0.99	↑					1.24
Mortgage Approvals	K	63.73	69.42	↓	70.31	↓					-1.47
Lending Sec on Dwellings	GBP Bn	5.27	7.18	↓	3.99	↑					-0.23
Nationwide House Prices	% y/y	11.0	12.1	↓	11.2	↓					-0.54
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	-5.8	1.9	↓	1.3	↓					-0.99
Consumer Confidence	Index	-41.0	-38.0	↓	-19.0	↓					-0.93
Employment Chge 3m/3m	K	296.0	10.0	↑	60.0	↑					1.84
Ave Weekly Earnings 3m	% y/y	6.2	5.6	↑	4.2	↑					0.65
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	4121	4185	↓	4192	↓					0.64
10-Year Gilt Yield	%	2.03	1.91	↑	1.30	↑					0.44
Gilt Curve (2s-10s)	bps	6.9	31.4	↓	25.7	↓					-1.51
GBP TWI	Index	79.24	80.20	↓	82.35	↓					-0.76

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 Hikes 50bps, Stresses Uncertain Outlook

By David Robinson, 5 August

- The Bank of England’s Monetary Policy Committee said on Thursday it voted eight-one in favour of its first 50-basis-point rate hike since obtaining operational independence in 1997 and unveiled plans for steady quantitative tightening even as it stressed very high levels of uncertainty as the economy heads for five consecutive quarters of contraction.

With the BOE’s economic forecasts highlighting the dilemma facing the MPC, Gov. Andrew Bailey told a press conference that every option would be on the table for Bank Rate in September, and that 50 bps would not now be the new normal.

By increasing the pace of tightening, the MPC is aiming to stop higher inflation getting embedded in the system, by driving up wage demands and encouraging firms to raise prices, even as the economy heads for a protracted slowdown.

Assuming market rates, which see Bank Rate rising from 1.75% after the August meeting to a peak close to 3%, the BOE expects consumer price inflation to plummet to just 0.76% in three years' time, from an energy-driven high of 13.3% this October. Even on unchanged policy, inflation would slide to 1.27% three years ahead, easily undershooting the 2% target.

DIVERGENT FORECASTS

The BOE’s Monetary Policy Report central forecast, which assumes wholesale energy prices follow market curves before flatlining after six-months and that fiscal policy is unchanged, shows the UK entering a five-quarter recession starting in the fourth quarter of this year, with a 2.2% contraction in GDP from peak-to-trough. But the Committee is placing more weight than usual on an alternative, market curve-based scenario, which is pricing in additional fiscal stimulus from the next UK prime minister and a retracement in energy prices. This projection sees a smaller peak-to-trough contraction of 1.5%.

Bailey, Deputy Governor Ben Broadbent and Deputy Governor Dave Ramsden all highlighted the limitations of the central forecast at the press conference.

While the outlook for rates is unclear, the BOE is determined to push ahead with gilt sales. Markets would have to be “very stressed” for any change to the plans for GBP10 billion in active sales a quarter from September as part of a reduction in gilt holdings of GBP80 billion in the first year, including roll-offs, according to Ramsden. (See MNI INSIGHT: BOE's QT Pace Known, Terminal Point Unknowable)

QT will take place “in the background” to changes in Bank Rate, which is the Bank’s primary policy tool, he said. The BOE gave no indication of how far it expected to go in shrinking its GBP844 billion stock of gilts, but said it would reassess the pace of sales after 12 months.

The Bank is keen to ensure that market participants have ample central bank reserves, and to avoid a rate 'snap-back' where short-term market rates become detached from the policy rate.

A new Short=Term Repo (STR) facility will keep market rates close to Bank Rate so that the MPC can carry out QT "independently of the implications of the supply of reserves,” the Bank said.

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