mni
All Signal, No Noise
MARKET ANALYSIS

BoE Preview: September 2022

Statement/Minutes release: 12:00BST, Thursday 20 September
Summary/Minutes: https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/september-2022
No press conference for a non-MPR meeting

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MNI View: Will QT be delayed?

Tim Davis, 20 September

Since the August MPC meeting inflation has been largely in line with the Bank of England's forecasts (indeed the August 2022 print was the first downside miss to the analyst consensus for headline CPI since the September 2021 print). Growth data has been largely in line (although the latest retail sales print was disappointing) while labour market data has remained more buoyant than expected.

The big change since August has been on the fiscal side

However, the big change since the August MPC meeting has been on the fiscal side. The government has announced a price cap for consumer energy prices and is expected to announce a number of additional tax cuts in the Fiscal Statement which is expected to take place Friday (although the date has still not been officially confirmed). The energy price cap has large impacts on inflation.

First, it removes the immediate prospect of an 80% increase in consumer energy prices in October, replacing it was a more manageable 25% increase (a rise that will not be felt fully by households due to a further £400 rebate to households over the winter). With inflation expectations at least in the short to medium-term driven largely by spot inflation, this in itself will help to stop inflation expectations getting out of control.

Second, inflation expectations will be helped further by the certainty that this energy price cap brings. Consumers are no longer going to be bombarded by newspaper headlines of rising gas prices each day. They are no longer going to be worrying about how high energy prices can go and what that means for wider inflation. In effect, upside risks to inflation have been notably limited and this should help with things like bringing wage negotiations under more control. However, on the flip side of this, more certainty about future inflation should also mean more confidence to spend in the shorter-term – which will boost growth and potentially domestically-fuelled inflation. These are some of the second round effects of inflation that the MPC has been hoping to contain, but this will in our view have a largely insignificant upward impact on inflation relative to the measure itself.

Finally, by limiting energy price rises now there will be no big fall in the future, so future inflation base effects will have less downside pressure. Even if energy bills had not fallen back for a couple of years, a slower pace of increases would have had downward pressure in terms of base effects. Now that energy prices are to be fixed for a 2-year horizon, there is less scope for a big disinflationary shock from falling energy bills in 1-2 years. It is important to note that the Bank's inflation forecasts always assumed that energy prices would move in line with futures prices for the next 6 months and

then stay there for the remainder of the forecast horizon. So this will not have any mechanical impact on the Bank's official forecasts but again this changes the balance of risks and the MPC will have been very aware of the underlying assumptions and their accompanying limitations when setting policy.

Of course, there are other tax cuts likely to be announced in the Fiscal Statement, but none likely to have as much impact on inflation or inflation expectations as the energy price cap. Our policy team note that the MPC is likely to be briefed at least on the broad measures that will be announced, so they will have at least an approximate idea of the overall size and impact of the package. Although of course, any discussion of this will be vague and the impacts will not be fully analysed until the November MPR.

Decision between 50bp and 75bp but signs of slowing growth may favour 50bp

With inflation still hovering around 10%, we agree with the majority of analysts and with markets that for the majority of MPC members the decision will be between a 50bp hike and a 75bp hike. Indeed, it is not just energy prices that are driving inflation and inflation expectations with core CPI running at 6.3%Y/Y in August, too. Most MPC members have given little specific public indication of where they expect the neutral Bank Rate to be – but most respondents to the Bank's Market Participants' Survey estimate it to be in a 2.0-2.5% range (Tenreyro hinted that she believed the neutral rate was around 1.25% but still voted for a 25bp hike in August due to risk management considerations). A 50bp hike would therefore bring Bank Rate back to the middle of the estimated neutral range, and thus likely require some further tightening in the future to bring Bank Rate into at least moderately restrictive territory.

The MNI Markets team thinks that with growth already starting to show some signs of slowing and with Bank Rate getting back to neutral (and potentially in the eyes of some additional MPC members into restrictive territory) that the limitation to upside inflation expectations from the energy price support scheme will be enough to sway the majority of MPC members to vote for a 50bp hike rather than a 75bp hike. We also think the "forceful" language will be maintained at least until the new November MPR forecasts.

There has been very little MPC communication so this is not set in stone

This is far from a foregone conclusion and since the August MPC meeting we have only heard from four MPC members. Tenreyro sounded as though she would dovishly dissent again (a vote for a 25bp hike seems likely). Mann was very focused on inflation expectations in the 2-5 year area and argued that the MPC needs to be more forceful – so she will probably vote for a 75bp hike. Bailey and Pill both gave little away and neither ruled out either a 50bp or a 75bp hike, although in our view Bailey did push back a little more against some of Mann's views on inflation expectations ahead of the Treasury Select Committee than we would have expected him to if he was leaning towards the 75bp camp. However, this leaves five MPC members that we have no indication of how their views have evolved (including new member Dhingra with no voting history).

Risk of a delay to active gilt sales is higher than the market anticipates

In addition to the decision on Bank Rate, the MPC will hold a confirmatory vote to decide whether to begin active gilt sales. Following the August MPC meeting, this had seemed a forgone conclusion. Indeed, some analysts and market participants still believe this to be the case. However, the MNI

Markets team is concerned that the risks of a delay or alteration to the plan for active gilt sales is much higher than the market anticipates.

The parameters for the plan of active gilt sales were announced alongside the August MPR. Assuming that the MPC votes in favour of starting active gilt sales the plan saw a start date in late September (which may well have now been pushed to early October given the delay to the meeting). It looked for active gilt sales at an average pace of GBP10bln/quarter with fortnightly auctions of each maturity bucket (which were set at the same as for gilt purchases i.e. 3-7 years, 7-20 years and 20+ years).

We questioned at the time whether the gilt market would be able to handle this additional supply, at the same time that expectations were increasing for potentially large tax cuts and fiscal spending. However, since then expected fiscal commitments have exceeded even the highest expectations among market participants and analysts. The energy price plan and tax cuts are likely to be funded through additional gilt issuance.

Bank is partly guided by response to MaPS survey

The Bank's announcement in August that active gilt sales would be in the region of GBP40bln was partly guided by responses to the Bank's Market Participants Survey (MaPS). This survey asks what is the maximum amount of active sales that could be conducted in the first 12 months. In August, the median response was GBP60bln with the 25th percentile responding GBP50bln. The Bank's intention for GBP40bln therefore gave a bit of a buffer. However, we think that there is a good chance that the latest Markets Participants Survey (the results of which are known internally in the Bank but won't be published publicly until Friday) may see these numbers lowered, potentially by a notable amount, given the planned increase in gilt issuance (and uncertainty surrounding the magnitude of any gilt remit).

What are the MPC's options regarding active gilt sales if MaPS shows a problem?

If there was a big change signalled in the MaPS survey, it would leave the MPC with a big decision. Should it still vote to go ahead with the GBP40bln/year plan, knowing that potentially down the line it might need to reduce the size of the active sales programme if the gilt market started to show signs of stress? This option would go against all previous Bank communication surrounding active gilt sales.

Should it therefore reduce the size of the active gilt sales programme? Possibly, but there is so much uncertainty for gilt market participants at the moment. The Fiscal Statement has not been held, so the DMO has yet to publish an updated gilt remit. Also, it is still very unclear whether consumers (and businesses) will voluntarily reduce their energy consumption. The lower consumption is, the less the energy price support scheme will cost (as every unit of energy used is effectively subsidised). And this is not the only consideration - the wider European energy market in general will impact UK gas prices and electricity wholesale prices. The fiscal deficit and gilt supply is therefore partly a function of UK energy demand and natgas prices.

More clarity on fiscal and how the gilt market is coping over the next few weeks

There should hopefully be more at least some more clarity on this over the next few weeks. Waiting for the November meeting to reconsider the appropriate size of the programme might be more

prudent. Particularly as it will enable the Bank and market participants to see how the gilt market reacts to the increase in supply from the DMO.

However, despite making it very clear that the MPC has not made a decision over whether to start active gilt sales, the market is very much expecting the programme to be started and carried out as previously anticipated. So there may be another hit to the Bank's communication strategy if sales are not carried out.

There are also political considerations – as the Bank of England has been under intensifying pressure from MPs to reduce the size of its balance sheet. Furthermore, the Bank would be leaving itself open to accusations of monetary financing if it was seen to be reducing active gilt issuance purely because of an increased government deficit.

The BOE's MaPS survey could give cover to delay or change the parameters of gilt sales

However, we think that through clear communication these accusations can be avoided – pointing to a reduction in the gilts that the BOE could buy without distorting the market via the MaPS survey would be one way to do this. Indeed, the increase in gilt issuance over the next 12 months could be anywhere between GBP30-130bln – some of this was likely expected when the August survey was conducted, but some of the rest will reduce the ability of the BOE to do active gilt sales.

If active gilt sales are delayed, the MPC would likely revisit this decision in November

If active gilt sales are delayed, we think that the MPC would revisit this decision at the November MPC meeting and could potentially recalibrate at a lower pace, guided by the responses to the Market Participants' Survey.

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.

September Questions

1) Was the Bank Rate raised, and if so by how much?
2) Number of members voting for a 25bp hike?
3) Number of members voting for a 50bp hike?
4) Number of members voting for a 75bp hike?
5) Number of members voting for a decision other than 25/50/75bp hike (and if so what?)?
   NB: On questions 2-5 we will name the dissenters
6) Did the MPC vote in favour of starting for the active sale of gilts (and if so when)?
7) What pace will active gilt sales be in year 1?
8) What pace will active gilt sales be in the upcoming quarter?
9) Did the MPC drop its previously formulated August guidance?
10) Did the MPC still point to the possibility of "forceful" action if required?

mni Central Bank Watch - Bank of England

September 20, 2022

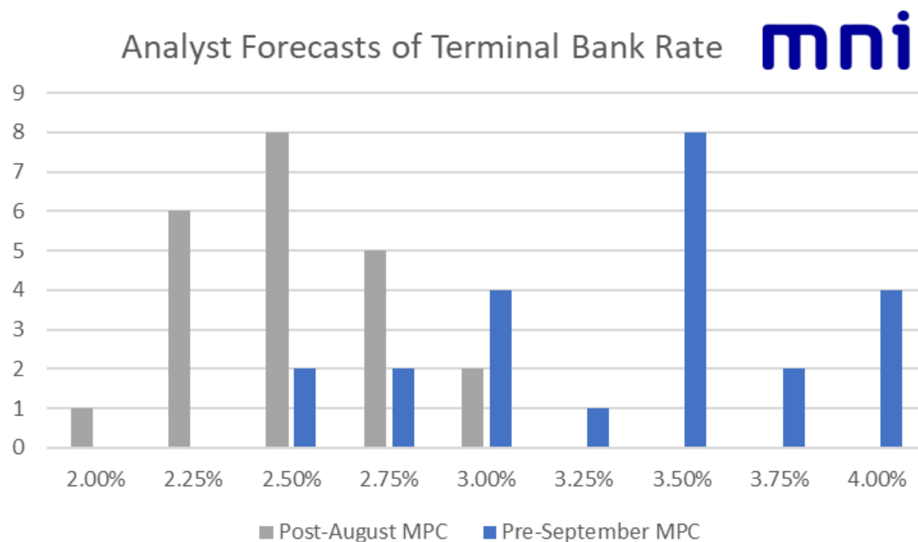
MNI Bank of England Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	9.9	9.1	↑	6.2	↑					1.68
Core CPI	% y/y	6.3	5.9	↑	5.2	↑					0.92
PPI Output	% y/y	-1.3	-0.9	↓	-0.7	↓					-1.00
Inflation Swap 5y/5y	%	3.86	3.88	↓	3.94	↓					-0.59
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	47.3	54.6	↓	58.0	↓					-2.46
PMI Services	Index	50.9	53.4	↓	60.5	↓					-1.20
Manufacturing Production	% y/y	1.1	1.4	↓	5.4	↓					-0.99
Index of Services	% 3m/3m	-0.2	0.2	↓	1.3	↓					-0.96
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	1.43	1.80	↓	0.80	↑					0.94
Mortgage Approvals	K	63.77	65.19	↓	74.48	↓					-1.02
Lending Sec on Dwellings	GBP Bn	5.05	4.40	↑	6.70	↓					-0.55
Nationwide House Prices	% y/y	10.0	11.2	↓	12.6	↓					-1.22
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	-5.4	-5.1	↓	7.5	↓					-0.86
Consumer Confidence	Index	-44.0	-40.0	↓	-26.0	↓					-1.02
Employment Chge 3m/3m	K	39.0	177.0	↓	-53.0	↑					-0.37
Ave Weekly Earnings 3m	% y/y	5.5	6.9	↓	4.9	↑					-0.29
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	3944	4202	↓	4158	↓					0.26
10-Year Gilt Yield	%	3.30	2.10	↑	1.41	↑					1.85
Gilt Curve (2s-10s)	bps	-3.8	51.5	↓	37.1	↓					-2.16
GBP TWI	Index	76.23	79.94	↓	82.42	↓					-1.64

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

Summary of Analyst Views

- 20/23 (87%) of analysts look for a 50bp hike in September while BNP, Credit Suisse and TD Securities look for a 75bp hike (13%).
- This is below market pricing of 65bp (which implies around a 60% probability of a 75bp hike with 50bp fully priced).
- Following the August meeting, no analyst looked for a 75bp hike in September, 13/23 expected 50bp (57%) and 10/23 had looked for 25bp (43%).
- Terminal rate expectations are 75-100bp higher than following the August meeting, but still below market expectations: The median is 3.50% (up from 2.50% following the August MPC meeting) while 83% of analysts expect a terminal rate of in a 3.00%-4.00% range (previously 87% had expected in a 2.25%-2.75% range). The terminal rate according to market pricing is around 4.57% at the time of writing.
    - 4 analysts look for 4.00% (17%)
    - 2 analysts look for 3.75% (9%)
    - 8 analysts look for 3.50% (35%)
    - 1 analyst looks for 3.25% (4%)
    - 4 analysts look for 3.00% (17% up from 9%)
    - 2 analysts look for 2.75% (9% down from 23%)
    - 2 analysts look for 2.50% (9% down from 36%)
    - No analyst looks for 2.25% (down from 27%) or 2.00% (down from 5%)
- Previously only three analysts had been expecting a 2023 hike but 13/23 analysts now expect at least one hike in 2023. Markets look for 87bp of hikes in 2023.
- 5/23 analysts explicitly say they expect cuts in 2023 (down from 8/22). Berenberg and Nomura expect cuts to begin in Q3-23 while NatWest Markets and Pantheon look for the first cut in Q4-23. TD Securities doesn't specify an exact start date but looks for cuts to begin in H2-23.



Summary of Analyst Views (Sorted by Hawkish to Dovish)

Institution	Post-August meeting	Pre-September meeting
Credit Suisse	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".	75bp hike in Sep22 with 50bp hikes in Nov22 and Dec22 then 25bp hikes in Feb23 and Mar23 to a terminal rate of 4.00%. Expect active gilt sales to go ahead as planned.
BNP	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).	"Finely balanced decision" but "arguments for a 75bp move more compelling." Risk of delay to start of gilt sales (would make 75bp more likely). Provisionally see 3.50% terminal rate.
TD Securities	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.	75bp hike in Sep22 with 50bp hikes in Nov22 and Dec22 to terminal rate of 3.50%. Unanimous vote to start active gilt sales. Cuts to start at 50bp/Q in H2-23.
JP Morgan	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.	50bp hike in Sep22 with 2-6-1 vote (75-50-25). Risk of delay to start of active gilts sales. Further 50bp hikes in Nov22, Dec22 and Feb23 and then 25bp in Mar23 to 4.00%.
Deutsche	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%".	50bp hike in Sep22 with 2-5-2 vote (75-50-25). Risk around QT twist or pause "non-negligible". 50bp hikes in Nov22 and Dec22; 25bp in Feb22, Mar22 and May22 to 4.00%
Bank of America	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.	50bp hike in Sep22 with 1-7-1 vote. Further 50bp hikes in Nov22 and Dec22 before 25bp hikes in Feb23 and May23 and Aug23 to 4.00%. No cuts before end 2024.
Citi	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%.	50bp hike in Sep22 with 1-7-1 vote. Further 50bp hikes in Nov22 and Dec22 before 25bp hikes in Feb23 and Mar23 to 3.75%.
Nomura	"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.	50bp hikes in Sep22, Nov22 and Dec22 with 25bp hikes in Feb23 and Mar23 to terminal rate of 3.75%. Still look for 2x25bp cuts in 2023 in Aug23 and Nov23.
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.	50bp hikes in Sep22, Nov22 and Dec22 with 25bp hike in Feb23 to 3.50%. "See possibility for further hikes in 2023, if we see underlying inflation pressures to prove persistent."
Goldman Sachs	50bp hike in Sep22 followed by 25bp in Nov22 and Dec22 to 2.75%.	50bp hike in Sep22 with 2-6-1 vote (75-50-25). Expect active gilt sales to begin, but may not be unanimous vote. Further 50bp hikes in Nov22 and Dec22 with 25bp in Feb23 to 3.50%.
NatWest Markets	Bank's reaction function has changed. 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.	Change of BOE reaction function and fiscal boost to see 50bp hikes in Sep22, Nov22, Dec22 and 25bp in Feb23 to 3.50%. 25bp cuts in Q1-24 and Q2-24 to 3.00% by end of forecast.
Morgan Stanley	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%.	Expect 50 bp hikes in Sep22 and Nov22 then 25bp hikes in Dec22, Feb23 and Mar23 to a terminal rate of 3.50%. No longer expect 25bp cut in 2023.
Daiwa	Maintain forecast that Bank Rate will end the year at 2.50%.	50bp hike in Sep22 with "at least one vote for 75bp" while Tenreyro "might prefer" zero or 25bp. Further 50bp hike in Nov22 then 25bp hikes in Dec22, Feb23 and Mar23 to 3.50%.
Rabobank	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.	Energy support reduces prob. of a 75bp Sep22 hike. Look for 50bp in Sep22 and Nov22, 25bp hike in Dec22 and two more 25bp hikes in early 2023. No longer expect 2023 cuts.
UBS	50bp hike in Sep22 then 25bp hikes in Nov22 and Dec22 to 2.75% before remaining on hold through 2023.	50bp hikes in Sep22 and Nov22 then 25bp hikes in Dec22 and Feb23 to a terminal 3.25%. "Reasonable probability" the MPC delays vote on active QT to the Nov22 meeting.
RBC	"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."	Energy support "removes likelihood" of 75bp hikes at either of the next two meetings. Look for 50bp in Sep22 and Nov22 then 25bp in Dec22 before pausing "though not reversing."
Société Générale	50bp hike in Sep22 and further 25bp hike in Nov22 to a peak of 2.50%. "Difficult to see" tightening in 2023 as wage demands cool in the face of the downturn."	Expect 50bp Sep22 hike with Tenreyro voting for 25bp and 1-2 members voting for 75bp. Further 50bp hike in Nov22 and final 25bp in Dec22 to terminal rate of 3.00%.
ING	"Another 50bp hike in September seems plausible". "We think the Bank's next rate hike in September could be the last."	50bp more likely than 75bp in Sep22 with another 50bp hike in Nov22 likely. Expect terminal rate "around 3% or a little below". Cuts in early/mid-2023 less likely now.
Berenberg	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.	Expect 50bp hike in Sep22 with Bank Rate at a terminal rate of 3.00% by year-end. Look for 25bp cuts in Q3-23, Q4-23 and one in 2024 back to 2.25%
SEB	100bp of further hikes across Sep22, Nov22 and Dec22.	50bp hikes in Sep22 and Nov22 before remaining on hold at 2.75% at least through the end of 2023.
Pantheon	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.	50bp hikes in Sep22 and Nov22 before reaching terminal rate of 2.75% with headline inflation hovering around 10% rather than soaring to 16%. Still see 25bp cut in 2023.
UniCredit	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."	50bp hike in Sep22 with active gilt sales sign off appearing to be a "mere formality." Further 25bp hike in Nov22 to peak of 2.50% with upside risks.
Barclays	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.	Think inflation has already peaked given energy price cap. Look for 50bp hike in Sep22 and 25bp in Nov22 to terminal rate of 2.50% with Bank on hold thereafter.

Source: Analyst previews and MNI
Note: Sorted by magnitude of next hikes, then terminal rate, then end of 2023 rate

Analysts' Key Comments (A-Z)

Bank of America: 50bp hikes in September, November and December then 25bp/quarter to 4.00%

- Look for 1-7-1 vote for 50bp with Mann voting for 75bp and Tenreyro voting for 25bp.
- "By lowering peak inflation we see the government's energy price cap allowing the BoE to avoid increasing the pace of hikes. But more fiscal stimulus means the BoE will have to hike more overall."
- "Now expect 50bp hikes each in September, November and December this year, along with 25bp hikes each in February, May and August 2023. We see the terminal rate at 4.00%... We forecast no rate cuts before end-2024."
- Following the August MPC meeting, BofA had looked for 25bp hikes in September, November, February 2023 and May 2023 to a terminal rate of 2.75% - before the latest forecast update this had been increased to 3.25%.
- "Risks to terminal rate skewed up… see risks skewed to greater government fiscal stimulus than we have assumed, meaning more inflation pressure."

Barclays: 50bp in September and 25bp in November then on hold at 2.50%

- "Still tight labour market conditions likely call for further tightening, but the conjunction of cooling job creation, economic slowdown and falling inflation will in our view remove support for a prolonged hiking cycle. We think latest development support our forecast of a 50bp hike in September, a 25bp in November and status quo at 2.5% thereafter"
- "Although the start of QT may clash with the government's announcement of a substantial increase in gilt issues, we still expect the BoE to approve the start of its QT programme, even if that implies a somewhat more conciliatory stance on rates."
- Expect the messaging to stay consistent in September but in November "the MPC will shift away from its 'forceful' narrative with inflation below 2% and recession in sight, and possibly reinstate its previous guidance of 'gradual and limited' tightening 'if needed'"

Berenberg: 50bp hike next week with terminal rate of 3.00% before cuts start in Q3-23

- Berenberg now looks for a 50bp hike next week with a further 75bp of hikes in Q4-22 to a terminal rate of 3.00% before 25bp cuts in both Q3-23 and Q4-23 to 2.50%.
- Following the August MPC meeting, Berenberg had looked for a 50bp hike in September and a 25bp hike in November to a terminal rate of 2.50% with 25bp quarterly cuts beginning in Q3-23.

BNP: Arguments for 75bp "more compelling;" provisionally look for 3.50% terminal rate

- "Bank of England decision is a finely balanced one, but find the arguments for a 75bp move more compelling than those for a 50bp increase."
- BNP are "are fairly confident that Catherine Mann will vote for a 75bp move next week, and Silvana Tenreyro will vote for a smaller move of 25bp or 50bp. But this tells us nothing about the remainder of the nine-strong Committee, including newcomer Swati Dinghra."
- "Given the volatility in the bond market and the prospect of a significant degree of additional gilt issuance, the MPC might be less inclined to give the green light on active gilt

sales at this meeting… All else equal, a pause on the active sales part of QT would point to needing to do more on the rates side."

- Expect the MPC to maintain "its guidance that it will "if necessary act forcefully" in response to more persistent inflationary pressure"
- "November's MPC meeting carries significant weight given that it will be the first time the MPC formally embeds the impact of the sizeable fiscal response into its forecast… With some signs of inflationary pressures moderating, and the economy likely to be in the midst of recession at that point (Figure 8), we think there will be plenty of ammunition for the MPC to slow down the pace of rate increases."
- "We think a higher terminal rate than in our previous forecasts looks likely (we will wait for full fiscal details but provisionally minded to say 3.5%), this would still be below market expectations of 4.25%."
- Following the August MPC meeting, BNP looked for 25bp hikes in September, November and December to a terminal rate of 2.50% (but noted there was higher probability of 50bp hikes than no hikes).

Citi: Look for three more 50bp hikes then 2x25bp to 3.75%

- "The MPC has provided no indication that an acceleration is on the table and, overall, we think a lower peak in near-term inflation would reduce any sense of urgency. We expect a second consecutive 50bp move, if with two-way dissent."
- Citi expects Tenreyro to vote for 25bp while Mann votes for 75bp.
- "Three important changes [in the reaction function]: 1) a more 'activist' approach to policy; 2) an increase in risk aversion; and 3) a renewed focus on inflation expectations (and by extension inflation outturns)."
- "Expect three consecutive 50bp hikes between September and December, before the MPC then reverts to 25bp moves in February and March of 2023 [to a terminal rate of 3.75%]. The main factor for a slowdown we think will be a tightening of financial conditions. The primary factor behind a pause, in our view, is likely to be an increase in capacity, and the emergence of some slack."
- Following the August MPC meeting, Citi had expected 25bp hikes in September and November to a terminal rate of 2.25% with 25bp cuts in August 2023, November 2023 and March 2024 to 1.50%.

Credit Suisse: 75bp September hike with 4.00% terminal rate

- Look for a 75bp hike with a 7-2 vote split (2 members dissenting for 50bp).
- Then look for 50bp hikes in November and December with 25bp hikes in February and March 2023 to a terminal 4.00%.
- "A failure of the BoE to hike by 75bps after the ECB's and Fed's outsized hikes would also further weaken the exchange rate, adding pressure to a currency already worried about the UK's fiscal sustainability dynamics."
- "data since August also support a more outsized move – wage growth has surprised on the upside for two consecutive months, the labour market is very tight, core inflation continues to pick up, and the DMP survey showed a pickup in medium-term inflation expectations to 4.2% in three years."
- "The BoE is also likely to vote on a plan for active sales of gilts at its meeting next week."

Daiwa: 50bp September hike and November hikes with terminal rate of 3.50% by March

- Look for 50bp September hike and "expect at least one vote for a hike of 75bps, from external member Catherine Mann, and perhaps also her fellow external Jonathan Haskel. However, dovish external member Sylvana Tenreyro might prefer to raise rates by 25bps, or not at all"
- "Despite the marked sell-off in Gilts since that announcement, as well as the likelihood of a massive increase in government Gilt sales over coming quarters - perhaps an extra £100bn or more spread over this fiscal year and next - due to PM Truss's new fiscal policy initiatives, the BoE might be unwilling to reduce the magnitude of its planned sales in the absence of disorderly market conditions."
- Expect further 50bp hike in November and then 25bp hikes in December, February and March to a terminal rate of 3.50%.

Danske: 50bp hikes through 2022 then 25bp in February to 3.50% but "possibility for further hikes in 2023"

- Expect 50bp September hike "but acknowledge that it is a close call between 50bp and 75bp… expect 50bp as opposed to 75bp, as we are more negative on the growth outlook [than the market]."
- "Expect outright government bond selling to commence with a proposed bond sales of GBP 10bn per quarter"
- Expect further 50bp hikes in November and December then 25bp in February to a terminal rate of 3.50%. "We see possibility for further hikes in 2023, if we see underlying inflation pressures to prove persistent."
- Danske had previously looked for 50bp in September then a final 25bp hike in November to a terminal rate of 2.50%.

Deutsche Bank: 50bp September hike, 4.00% terminal Bank Rate by May 2023

- Expect 50bp hike with 2-5-2 vote split and active gilt sales of GBP10bln/quarter to start from late September.
- Look for Tenreyro and Dhingra to vote for 25bp while Mann and Haskel vote for 75bp.
- "Given the upside risks to growth and medium-term inflation coming from a material loosening in fiscal policy, we expect two further 50bps hikes in November and December. Thereafter, we expect weaker growth and a slowdown in inflation to slow the Bank's pace of tightening. We see three further 25bps rate hikes (Feb, Mar, and May) taking the peak terminal rate to 4%... Given the stronger inflation backdrop, we now see rate cuts only emerging in early 2024 (Feb), with a landing zone of 1.75% by mid 2025."
- Deutsche Bank previously looked for a 2.50% terminal rate with a 50bp hike in September followed by 25bp in November – before cuts began in August 2023.
- "Risk management considerations, in our view, warrant a further push into restrictive territory to ensure inflation expectations remain anchored, dampening the emergence of second round effects… we no longer see a 'modestly restrictive' stance as sufficient to get inflation and labour market pressures under control. Instead, a materially more restrictive stance will likely be needed to return the labour market back to equilibrium, even if it comes at the expense of below potential growth for longer."

- "Risks around a QT twist or a pause are non-negligible… risks around supply (and demand) for gilt sales are rising, given the expected upgrade to gilt issuance expected from the DMO over the coming weeks… Gilt market liquidity also remains strained…. And with short-end gilts trading very rich, the Bank may also increasingly consider skewing its sales to the front-end in order to achieve value for money for taxpayers (minimising the loss from gilt sales)."
- **"**Given the relatively fresh guidance provided by the MPC (back in June), we see no reason yet for the MPC to abandon its flexible and nimble approach to setting policy"

Goldman Sachs: Look for 50bp Sep/Nov/Dec hikes with terminal rate of 3.50%

- "Continue to think a 50bp hike at next week's MPC meeting is more likely than a step-up to 75bp. However, this is not a done deal and there is a case for the BoE to take monetary policy rapidly into contractionary territory given strong and persistent wage growth, and the likelihood of further fiscal support under PM Truss."
- Look for a 1-6-2 vote split (25/50/75bp) with Tenryero voting for 25bp while Mann and Haskel vote for 75bp.
- Active gilt sales: "it is possible that the recent market volatility combined with uncertainty over the size of the government's borrowing requirement following PM Truss's fiscal announcements may lead a couple of MPC members to prefer a short delay to the start of active sales. However, given the strong signal at the last meeting, and a desire to avoid accusations of monetary financing, we continue to expect the majority of members to vote to begin asset sales by the end of the month."
- GS "expect the UK to enter a mild and shallow recession starting in Q4. We look for activity to contract by around 1.0% through Q2, which is relatively modest compared to previous recessions"
- "We expect 50bp hikes at both the November and December MPC meetings before a step-down to a 25bp hike in February, taking our estimate of terminal Bank Rate to 3.5%"

ING: Two more 50bp moves with Bank Rate peaking at 3%

- ING "narrowly favour a 50bp hike on Thursday, taking the Bank Rate to 2.25%, although 75bp is clearly on the table and we would expect at least a couple of policymakers to vote for it."
- "Expect another 50bp move in November and at least another 25bp in December. That would take Bank Rate to the 3% area."
- "The Bank of England has also recently forecast a sharp rise in unemployment and a prolonged recession, helping to lower wage pressure and pricing power by 2024/5. All of that is less likely to happen under an energy price cap, and in theory that could lead to more tightening. That doesn't necessarily mean a dramatically higher terminal rate but does mean that the BoE is less likely to start the firing gun on rate cuts in early/mid-2023."

JP Morgan: Look for 50bp in September with 4.00% Bank Rate by Q1-23

- "Surprises in the UK data this week have been two sided... But weaker signals about near term growth going into next week's meeting, and a corresponding move in markets after this morning's data, suggest the MPC will lean towards a 50bp hike for next week instead of 75bp." (Note JP Morgan had originally changed its forecast to look for a 75bp hike next week following the energy price cap announcement).

- "The MPC will hence go into the meeting a little more cautious about growth in the near term, and under less pressure from markets to step up the pace of tightening. It is likely to direct more attention towards its November forecast meeting in order to take stock of the overall macro picture - which would allow time to incorporate next week's fiscal announcement. We think these developments overall now argue more in favour of a 50bp move for next week, and hence we are changing our call back to that outcome.."
- "We forecast a 1-6-2 split vote for 50bps, with Tenreyro on 25bp and Mann and Ramsden on 75bp. For now we are leaving our forecast for the terminal rate in 1Q23 at 4.0% (we push an extra 25bp into that quarter) but will review this after seeing the outcome and guidance of next week's MPC meeting."

Morgan Stanley: 50bp hikes in Sep/Nov with 3.50% Bank Rate by March 2023

- Expect 50bp hikes in September and November before 25bp hikes in December, February and March to a terminal rate of 3.50%. No longer expect cuts in 2023.
- Following the August meeting, MS had been looking for 25bp hikes in September (although had described this as a "coin toss" between 25bp and 50bp) and 25bp in November to a terminal rate of 2.25% with a first 25bp cut in November 2023 to 2.00%.

NatWest Markets: 50bp in September with 3.50% Bank Rate by February

- NatWest Markets revise their BOE forecast due to the fiscal boost of the "substantial energy support package (a mooted ~£150bn over 2 years)". They now look for a terminal rate of 3.50% to be reached in February 2023 (versus 3.00% in December previously). They look for 50bp in September, 50bp in November, 50bp in December (previously 25bp) and 25bp in February 2023 (previously on hold).
- NatWest Markets also pushes back the timing of the first Bank Rate cut to Q1-24 (previously Q4-23) and continues to look for a further cut in Q2-24 to 3.00% (the end of the NWM forecast horizon). Previously NWM looked for Bank Rate of 2.25% in Q2-24.
- NatWest Markets notes that a "regime shift is coming to the gilt market" and they look for 10-year gilts to reach a yield of 4.00% by Q1-23.
- "The BoE's reaction function appears to have changed fundamentally. The previous approach of policy gradualism (more cautious +25bp increments in Bank Rate and overt references to trying to avoid recession) has been abandoned. The MPC insists there is clearer evidence of more persistent domestic inflation pressures."
- NWM also notes that it does not expect the MPC "to slow the pace significantly on account of more fiscal stimulus."
- "Our sense is that if it were a trade-off, the BoE would rather do more on QT and less on Bank Rate (sparing themselves the criticism of high rates hurting borrowers whilst also shrinking the balance sheet)."

Nomura: 50bp hikes this year to 3.75% terminal rate in Q1-23; cuts to begin Q3-23

- Due to the energy price support scheme, Nomura "raise our Bank Rate forecast to a further 200bp of hikes (for a peak of 3.75% at end Q1 2023) – 50bp in each of the remaining three meetings this year followed by 2x25bp hikes to finish in Q1 next year. We have pushed out our view of 2x25bp rate cuts next year to August and November"

- Following the August MPC meeting, Nomura had been expecting a 50bp September hike and 25bp November hike to a terminal rate of 2.25% before 25bp cuts in May 2023 and August 2023 to 1.75%.
- “Market concerns about the potential for a sterling crisis with high inflation, bumper fiscal packages (and with them higher gilt issuance), a rapidly widening current account deficit, rating agency downgrades, political instability (the fourth PM in six years, and the fifth Chancellor in just over three years) will be very much on the Bank’s radar, but despite this we still think that, on balance, the MPC will go ahead with QT.”
- “Such a decision to pursue active QT is – at the margin – another factor that would support the Bank raising rates by 50bp rather than 75bp at next week’s meeting.”

Pantheon: Two more 50bp hikes before stopping

- “Ms. Truss' package of measures makes Committee members' lives easier. It is less likely that inflation expectations and wage growth will get stuck at rates that are inconsistent with the 2% inflation target now that the headline rate will hover around 10% over the coming months, rather than soar to 16%.”
- Expect “the MPC will hike Bank Rate by 50bp next week, and a further 50bp in November, before stopping there.” Pantheon then expects a 25bp cut in 2023 to 2.50%.
- Following the August MPC meeting, Pantheon had been looking for 25bp hikes in September and November to a terminal rate of 2.25% with a 25bp cut in 2023 back to 2.00%.
- “Think that the MPC will confirm that it will start active gilt sales at a pace of £10B per quarter, in line with the plan set out at August’s meeting.”

Rabobank: 50bp in September and November with 3.50% terminal rate in early 2023

- “Favour a 50 bps increase in Bank rate to 2.25% next week; a 50 bps hike in November looks now likely too. The risks remain skewed to the upside… a 25 bps hike in December look likely too. This would mean that Bank rate ends the year at 3.00%. We have pencilled in two more 25 bps rate hikes in early 2023 too. This is a direct consequence of the unexpectedly generous energy relief package.” This would leave the terminal rate at 3.50%.
- “In our view, [the energy support] package reduces the need of a 75 bps hike next week in favour of a 50 bps move, but the flipside is higher policy rates for longer. We have therefore removed the cuts from our 2023 H2 outlook.”
- Following the August MPC meeting, Rabobank had expected a 50bp in September, 25bp hikes in November and December to a terminal rate of 2.75%. Rabobank had then looked for 25bp cuts in August and September 2023 back to 2.25%.

RBC: Energy support scheme removes likelihood of 75bp at either of next two meetings

- Expect 50bp hikes in both September and November.
- “The argument of MPC hawks that Bank rate needs to be hiked more aggressively to bring inflation expectations under control begins to weaken as the very high peaks in near-term inflation that were previously expected are ‘smoothed’ away by the price cap freeze. So, to our minds at least, the government’s announcement should remove the likelihood that the MPC go 75bps at either of its next two meetings.”

- "Still think that a deteriorating economy will cause the MPC to revert to a slower pace of hikes and retain our call for a 25bps rate hike in December after which we see the current hiking cycle pausing, though not reversing."
- "The prudent approach given the uncertainty around the future government borrowing requirement might be to delay when gilt sales begin rather than having to reverse later (which would undermine the predictability that the MPC have emphasised). Yet equally, to postpone the commencement of gilt sales would be tantamount to the MPC passing judgement on the potential size of the borrowing requirement created by the energy package."
- "Our assumption is that the MPC will vote to commence active QT at the meeting, mainly given how much weight they have placed on predictability, but we would point you to Huw Pill's comments which raise a question for us as to whether they will proceed with full £80bn reduction in gilt holdings that was previously announced."

SEB: 50bp hikes in September and November

- Look for 50bp September hike while the "BoE is fully focused on cracking all forms of contagion effects to avoid inflation taking further hold adding additional 50bp hike in November"
- Expect "the plan to reduce the stock of gilts held by £80bn over the next 12 months stays in place."

Societe Generale: Look for 50bp next week with commencement of active gilt sales

- "We expect the MPC to vote for another increase in Bank Rate of 50bp, taking it to 2.25%, and confirm its plans to commence active gilt sales."
- Expect Tenreyro to repeat 25bp vote and "shouldn't rule out the possibility of one or two members voting for a 75bp hike."
- "The hit to real disposable income from inflation is likely to cause a fall of 5% or more next year, creating a recession which, with a lag, is likely to take the steam out of the labour market."
- Look for a further 50bp hike in November and then a final 25bp hike in December to a terminal rate of 3.00%.
- Following the August MPC meeting, SocGen had looked for 50bp in September with two 25bp hikes in November and December, to the same 2.75% terminal rate.

TD Securities look for 75bps next week; 3.50% by year-end; cuts in H2-23

- "The MPC is likely to take its cues from the labour market and inflation data, and less from the growth figures. In our view, this shifts the odds next week marginally in favour of a 75bps rate hike. The labour market data is largely what has tipped us over the edge from a 50bps hike."
- "The decision to start Gilt sales imminently at a pace of £10bn/qtr is likely to be unanimous."
- "While fiscal policy may help soften inflation expectations somewhat, we don't think the MPC will be comfortable slowing the pace of hikes materially until they start to see evidence of this in the data. Their gradualist approach has, so far, not succeeded in taming the vicious cycle of wages and inflation."

- TD Securities now expects two further 50bp hikes to a terminal rate of 3.50% and "and if November's budget surprises with even more fast fiscal easing, may see the MPC hiking beyond 3.50% in early 2023."
- TD Securities notes that "cuts are likely to begin in 2023H2, at a pace of about 50bps per quarter back toward neutral as inflation falls sharply."

UBS: Look for 50bp in September and November with terminal 3.25% rate by February 2023

- Look for 50bp September hike with “some MPC members” voting for a larger hike.
- “In light of the new fiscal measures, we make two changes to our call. First, we now expect the November hike to be 50bp rather than 25bp. Second, we expect an additional 25bp hike in January 2023, which would imply a terminal rate of 3.25%”
- “We think there is reasonable probability that the MPC delays their vote on active QT to the November meeting by when the scale of the increase in borrowing would be clear.”

UniCredit: 50bp in September and 25bp in November to a terminal 2.50%

- Look for 50bp in September with “one or two” votes for 75bp and Tenreyro dovishly dissenting.
- Expect further “25bp move in November, taking the bank rate to 2.50%, which we see as the peak. Risks are skewed to the upside.”
- “It appears a mere formality that the MPC will sign off next week on the plan announced in August for government-bond sales of around GBP 10bn per quarter.”

MPC Member Key Comments

Mann: Leaning towards 75bp?

5 September speech highlights

- The overall tone of her speech does suggest that she is leaning to voting for a 75bp hike next week - particularly as she will have known what the market was pricing when she made this speech and out of the MPC members she is among the most attuned to making her comments with market pricing in mind.
- Mann has been one of the hawks on the MPC for some time and with the exception of the March MPC meeting around the time of the start of the Ukraine war has voted for a 50bp hike at each of this year's MPC meetings (as well as voting for an early end to QE last November). With only one 50bp hike in that period (at the last meeting in August) she has long thought the MPC was acting too slowly.
- "When thinking about the tightening undertaken to date, my concern is that the gradual pace of increase in Bank Rate has not tempered expectations enough, allowing the embedding of the short-term inflation overshoot into the persistent drift in medium-term expectations. The stylized Phillips curve example shows why a shift outward of the curve implies that achieving the 2% target sustainably would be associated with permanently higher unemployment and lower aggregate demand. The 1970s, with ratcheting-up and persistently high inflation, required a long duration of elevated unemployment to bring inflation back down. A tighter policy stance now working through expectations reduces the degree of restraint to aggregate demand in the future."
- "If monetary policy does not affect expectations formation – either because it is not forceful enough or if the required path is not credible –the drift in medium-term expectations is more likely to yield that worrisome shift of the Phillips curve."
- "It is encouraging that long-term expectation metrics apparently remain anchored and consistent with the 2% target. It appears that the credibility of monetary policy is intact. However, just because credibility is intact does not say how the 2% will be achieved – it can be either through acting on expectations or through requiring a long period of slack. As noted, the drift in medium-term expectations is already apparent in the data. We cannot be complacent in the face of the short-term spikes and medium-term drift. Acting more forcefully now, to ensure that the drift does not become the norm, is designed to avoid depending on a deeper and longer contraction to return inflation to target."
- "Some commentators have pointed out that the MPC's central forecast projects a pro-longed recession over the next quarters, and that this slack would yield inflation falling below the target in year three... while some elements of this line of argument might hold in normal times, it is based on an incomplete view of the inflation process and of the channels through which monetary policy can achieve our remit... achieving the remit depends on ensuring that inflation expectations in the short-term do not become adaptive, and that medium-term inflation expectations do not drift, so that long-term expectations remain anchored."
- "In the more nuanced formulation of the Phillips curve discussed [in this speech], inflation today does not simply depend on past inflation but depends as well on markets, firms, and

household's expectations, and crucially, how these expectations react to each other, are formed over time, and interact with our and others' policy choices. The MPCs' evaluation of inflation expectations therefore should take a central role in monetary policy decisions."
- "In this more complex and arguably more realistic and relevant version of the inflation model, a fast and forceful monetary tightening, potentially followed by a hold or reversal, is superior to the gradualist approach because doing so is more likely to promote the role that inflation expectations can play in bringing inflation back sustainably to 2% over the medium term. This policy strategy would reduce the risks of a more extended and costly tightening cycle later that depends primarily on shrinking aggregate demand."
- "One plausible mechanism for such endogenous regime shift – proposed by Cornea-Madeira et al. (2019) – arises if we think of two types of firms and households in the economy: forward-looking "fundamentalists" and backward-looking "random-walkers"... when shocks drive inflation away from target for extended periods and the fundamental rule produces larger forecast errors, more firms and households use the backward-looking rule to form adaptive expectations. In this case, experiences of past high inflation can become embedded in firms' and households' price-setting decisions and the aggregate Phillips curve becomes more accelerationist over time."
- "Long-term inflation expectations remain relatively well anchored and the MPC has credibility to be able to fulfil its remit. This is unequivocally a good thing but survey measures do not tell us how we actually get to the objective of 2% – through aggregate demand compression or other ways. Second: Short-term inflation expectations are worryingly elevated but mostly reflect past inflation and are likely not a good guide for policy choices or outcomes in real time. Third, of significant concern: Medium-term measures of inflation expectations have drifted up alongside realized inflation, albeit not by as much. This may indicate a worrying shift in trend inflation, e.g. a shift in the Phillips Curve. A drift in medium-term inflation expectations is the development that monetary policy needs to firmly lean against and it should be a key yardstick for whether the MPC's decisions are effective."

Tenreyro: Bank Rate already in contractionary territory

- Two interesting things in Tenreyro's Annual Report: Tenreyro confirming that she thinks Bank Rate is already in contractionary territory. And also saying that her votes for "gradual" rises "do not preclude voting for more forceful rate increases in future, should adverse wage-price dynamics take hold."
- That sounds as though she's likely to continue to vote for a 25bp hike in the upcoming meeting and will need to see evidence of wage-price dynamics before voting for a larger hike.
- Indeed, she was asked by the TSC whether 1.50% is as far as Bank Rates need to go - she said she needed to consider further tightening before seeing more certainty in the data.
- This probably doesn't matter too much for markets as she has long been seen as not holding the same view of the central members of the MPC.

Highlights from her Annual Report:

- "In August I thought that at 1.25%, the policy rate was more likely than not to have reached its short-run equilibrium level... But there were two risks also influencing my assessment of the appropriate policy rate. First, the equilibrium rate of interest is inherently uncertain... Second, there are risks around how much the extremely high rate of headline inflation feeds persistently into domestic wage and price setting, as firms and workers try to catch-up with past price rises. This would tend to delay how long inflation takes to fall back to target."
- "In the face of these risks, in August I felt it was appropriate to increase Bank Rate further, above my modal estimate of its equilibrium level. I was aware that the costs of doing so are that it will weaken demand further, and given the lags before policy takes its full effect, increase the likelihood that we oversteer into below-target inflation in the medium term. To limit these costs, I voted to raise Bank Rate to 1.5%, a more gradual increase than the rest of the committee. When close to the equilibrium rate, gradual rate rises allow us to react before we tighten too far into contractionary territory, as we observe the lagged impact of policy and demand on the labour market. They also do not preclude voting for more forceful rate increases in future, should adverse wage-price dynamics take hold.

what we learnt from the TSC testimony

- Tenreyro seems to be leaning towards another 25bp hike.
- Pill gave little indication he would vote for a larger than 50bp hike and at some points seemed to lean against some of Mann's inflation expectation judgments.
- Pill asked how much energy prices added to inflation forecasts - he says around 7ppt in direct effects, but indirect effects are higher than this. As a rule of thumb - the indirect is around a third, "so getting to around 10ppt of the 13%."
- Bailey seemed more sympathetic to Mann's arguments than Pill. Again gave no indication whether he would favour 50bp or 75bp - but seemed to be leaning more hawkishly than Pill.
- Bailey says he is "very concerned" that we will get greater inflation persistence - and that's where he agrees with Mann. "Have to be very, very alert" to inflation expectations. He says he is "very concerned" that we will get greater inflation persistence - and that's where he agrees with Mann. However, there is nothing explicit on 75bp vs 50bp. Or pointing to a faster pace of tightening being needed.
- Pill says he "doesn't want to push back that there is more work to do" on inflation expectations but says that the shock of the Russia inflation is massive. Pill sounds as though he is trying to distance himself a bit from Mann's concerns on inflation expectations - sounds as though he might be favouring 50bp here (although keeping cagey).

MNI POLICY TEAM INSIGHTS

Fiscal Policy Clouds BOE Hike Debate

By David Robinson, 20 September

The Bank of England's Monetary Policy is set to split at its September policy meeting over whether to hike by 50 or 75 basis points, with a potentially huge rise in government spending adding another layer of complexity to considerations.

Analysts mainly expect 50 bps although market pricing suggests a greater than 50% chance of 75. The only MPC member to give any steer towards a 75bps increase has been Catherine Mann, with a Sept 5 speech making the case for front-loading hikes to tackle the risk of medium-term inflation expectations ratcheting higher, with the others largely silent since the August meeting.

In evidence to the Treasury Select Committee on Sept 7, Mann's colleague Silvana Tenreyro argued that gradual tightening would reduce the risk of driving inflation below target in the medium-term, though she was also concerned about inflation expectations.

The MPC has previously demonstrated that it is prepared to leave markets hanging on the precise size of a rate change and there has been no move from the governor or his deputies to fine-tune expectations. The dominant view, championed by Deputy Governor Ben Broadbent, has been that the benefits of waiting until the meeting to assess data and events outweigh those of trying to steer market expectations.

FISCAL POLICY

The timing of a major government fiscal announcement capping household energy bills for two years and cutting taxes on Friday, the day after the BOE's policy announcement, hampers the MPC's ability to take the government measures into account, as it could not record any discussion of the package's details in the minutes of the meeting even if, as is usual, they are briefed on it.

While analysts suggest that the package could amount to 8% or more of GDP, depending on how wholesale energy prices evolve, the MPC may have to wait until its November meeting to take into account its undoubtedly significant implications for monetary policy.

BOE Chief Economist Huw Pill told the TSC that the energy price cap's impact on inflation depends on details not yet available, though he added that while it should lower near-term inflation the more important question for policy was its impact at the "policy relevant horizon" at least 18 months down the track. While Pill was wary of elaborating, hefty fiscal support funded by borrowing looks more likely to push up, rather than down, on medium-term inflation and rates.

GILT SALES

The MPC is also set to vote on whether to embark on active gilt sales, but it has made clear that the decision will depend on market conditions, and a jump in government borrowing could argue for postponement. (See MNI INTERVIEW: BOE Balance Sheet To Remain A Political Target)

Governor Andrew Bailey has, however, repeatedly made the case for reducing asset holdings to free up central bank fire power to deal with the next shock and has championed the idea of having gilt sales ticking away in the background with Bank Rate as the active policy instrument.

The MPC agreed at its August meeting that "there would be a high bar for amending the plannedn reduction in the stock of purchased gilts outside a scheduled annual review" and set out an active sales programme of around GBP10 billion per quarter. This gave it a sizeable amount of headroom against the mid-point of GBP60 billion in its August market participants survey of the amount of gilts it could sell over the next 12 months with disrupting the market.

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