BoE Preview: November 2022

Statement/Minutes release: 12:00GMT, Thursday 3 November
Summary/Minutes: https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/november-2022
Monetary Policy Report: https://www.bankofengland.co.uk/monetary-policy-report/2022/november-2022
Press conference: 12:30GMT, Thursday 3 November

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MNI View: Downside risks to 75bp

Tim Davis, 1 November

The MNI Markets team expects a 75bp hike at this week's MPC meeting, albeit with risks of a smaller 50bp hike. UK markets have moved back to close to their prevailing levels ahead of the September MPC meeting but with inflation still in double digits and still flagging concerns in the Bank's DMP surveys, and still a great deal of uncertainty surrounding the magnitude of fiscal consolidation, we think that the majority of the MPC will not want to disappoint a strong analyst and market consensus of a 75bp hike. With growth already starting to falter, however, we do think there is a risk that the Bank delivers a smaller 50bp hike (but do not see the need for a larger 100bp hike at this stage).

Gilt and money markets back to similar levels to the September MPC meeting

It will only have been six weeks since the September MPC meeting and taking a first glance at market pricing now compared to immediately after the meeting, you could have been excused for thinking not a lot has changed. Market pricing sees a terminal rate around 4.80% (similar to the level following the September MPC meeting) while 2-year, 10-year and even 30-year gilt yields are all also at similar levels to those following the September meeting. Looking at the BOE's broad sterling effective exchange rate, the pound is around 2.8% stronger than it was following the September meeting.

Analyst expectations have shifted up 75-100bp

However, we have had quite the round trip to get back to these levels with terminal rate expectations having exceeded 6.25% and the Bank of England had to step into the gilt market to stabilise both the long-end and linkers after the "Growth Plan" of former MP Truss and her Chancellor Kwarteng. The Bank of England's active gilt sales programme was also delayed (although is still due to start on 1 November, two days ahead of the MPC meeting, albeit with sales now only due to take place for short-dated and medium-dated gilts). Some financial conditions, for example in the mortgage market, remain notably tighter than previously. Analyst expectations of the terminal Bank Rate have shifted up considerably too – as we note on page 4 the median expectation is now 75bp higher at 4.25% than ahead of the September MPC meeting while the mode is 100bp higher at 4.50%.

6-month EPG, NI cut and stamp duty survive ahead of the Autumn Statement

So what has survived the U-turns in government fiscal policy? The energy price guarantee will cap the household energy bill for an average usage household at £2,500/year but only for six months until April 2023 (at the September meeting the price guarantee was expected to last for two years). The 1.25ppt reversal of the increase in national insurance (paid by both employers and employees) has also survived (and was expected as one of Truss' campaign pledges), as has the cut in stamp duty on housing purchases. However, the government's Autumn Statement due on 17 November will also likely provide considerably more fiscal tightening, with both new PM Sunak and Chancellor Hunt having noted that painful decisions will need to be made.

Rates used to calculate the Bank's forecasts will be over 200bp higher than in August

And although some key financial markets are back to their September MPC levels now, the rates used in the Bank's forecasts (which typically take a 15-day average to avoid volatility in markets) will be notably higher than those used in the August MPR forecasts – over 200bp higher. In August, the Bank's inflation forecasts using market rates were around target at the 2-year horizon but had fallen below 0.8% at the 3-year horizon, implicitly pushing back on market rates. Indeed, even using constant rates of 1.75%, inflation was expected to be around 2.5% in 2-years and only 1.3% in 3-years time.

In terms of economic developments, growth has been a bit softer than the Bank had expected and near-term inflation will be lower than expected in the August forecasts thanks to the Energy Price Guarantee. However, this pushes the problem down the line by six months or so as it is far from clear what will replace the scheme in April – although it is known that it will be a lot more targeted. The Bank is also concerned about inflation expectations with its DMP survey showing that domestically-generated inflationary pressures are broadening out.

Bank likely to be wary of an adverse reaction – so 75bp hike looks likely

The MNI Markets team thinks that with the Bank of England both wary of an adverse market reaction in fragile markets if it underdelivers and also keeping an eye on these inflationary pressures, a 75bp hike is the most likely outcome. However, we expect Dhingra, Tenreyro and potentially other MPC members to dissent dovishly to the decision.

There is a range of views on the MPC with Mann, Haskel and Ramsden all voting in favour of a 75bp hike at the meeting in September while Dhingra voted in favour of a 25bp hike. While we concede it is possible that one of the hawks from last month votes in favour of a larger than 75bp hike, we don't think it's hugely likely.

Recent commentary hints at market pricing being too high

Recent MPC commentary has been in contrast to that seen immediately after the "Growth Plan". Broadbent and Mann within the past two weeks have both pushed back against market pricing. Broadbent said that "Whether official interest rates have to rise by quite as much as currently priced in financial markets remains to be seen." For him, this is as explicit as he ever really gets in terms of talking about market pricing. In contrast Pill noted after the Growth Plan was originally announced and before the government's U-turns that a "significant" monetary policy response would be needed.

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

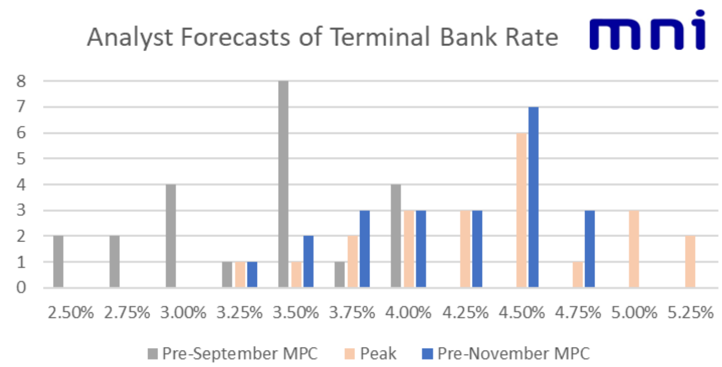
- No need to scroll through 30 newswire headlines.
- All of the tradable info you need delivered concisely straight to your bullet feed or the interactive chat.
- Gives you the confidence that you can quickly trade at the announcement time.

November Questions

1) Was the Bank Rate raised, and if so by how much?
2) Number of members voting for a 25bp hike (or unchanged)?
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 100bp or larger hike?
   NB: On questions 2-5 we will name the dissenters
6) Did the MPC drop its previously formatted September ‘guidance’?
7) If no to Q6, did the MPC still suggest “forceful” action could be required?
8) If no to Q6, did the MPC suggest “significant” action could be required?
9) If any ‘guidance’ was offered by the MPC, was it backed by all or by most/majority of the MPC?
10) Around what level and when do the MPC see CPI peaking?
11) UK CPI rate in two years' time at market rates / constant rates (mode)
12) UK CPI rate in three years' time at market rates / constant rates (mode)
13) What is the Bank's forecast for Y/Y Q4 2023 GDP?
14) What is the Bank's forecast for Y/Y Q4 2024 GDP?

Summary of Analyst Views

- 20/22 (91%) of analysts look for a 75bp hike in November while ING and SEB look for a 50bp hike.
- Most expect between 1-3 members to dovishly dissent. Although some acknowledge the risks, only Société Générale explicitly looks for some MPC members to vote for a 100bp hike.
- Market pricing of 72bp is broadly in line with analyst expectations.
- 16/21 (76%) analysts look for a slowdown in the pace of hikes back to 50bp in December with 5/21 (24%) expecting another 75bp hike.
- Terminal rate expectations considerably higher than they were ahead of the September MPC meeting, but still below market expectations:
- The median is 4.25% (up from 3.50% ahead of the September MPC meeting but down from an intermeeting peak of 4.50%) while the mode is 100bp higher than ahead of the September MPC meeting at 4.50%.
- 86% of analysts expect a terminal rate in a 3.75%-4.75% range (ahead of the September MPC meeting 82% of analysts expected a terminal rate of in a 3.00%-4.00% range). The terminal rate according to market pricing is around 4.85% at the time of writing, down from a peak of around 6.2%.
    - No analysts expect a terminal rate above 4.75% (at the peak 5 analysts had)
    - 3 analysts look for 4.75% (14%)
    - 7 analysts look for 4.50% (32%)
    - 3 analysts look for 4.25% (14%)
    - 4 analysts look for 4.00% (14% in line with the number pre-September MPC)
    - 3 analysts look for 3.75% (14% up from 5% pre-September MPC)
    - 2 analysts looks for 3.50% (9% down from 36%)
    - 1 analyst looks for 3.25% (5% in line)
    - No analysts look for 3.00% (down from 18%)
    - No analysts look for 2.75% (down from 9%)
    - No analysts look for 2.50% (down from 9%)
- Only BofA, Deutsche Bank and Goldman Sachs explicitly look for a May 2023 hike.
- Barclays, Berenberg and SEB expect the last hike to be in December with the vast majority expecting a final hike in Q1-23.
- Only Berenberg sees rate cuts in its base case before the end of 2023. It sees 50bp of cuts in H2-23 to bring Bank Rate back to 3.00%.



Summary of Analyst Views (Sorted by Hawkish to Dovish)

Institution	Previous	Pre-November meeting
Bank of America	Had previously looked for 100bp in Nov22 with 5.25% terminal rate. Ahead of the fiscal statement: 75bp hike in Nov22, 50bp hike in Dec22 and three 25bp hikes to 4.25% in 2023.	75bp Nov22 hike with 7-2 vote. Expect further 75bp hike in Dec22 with a 4.75% terminal rate by May 2023. Expect cuts to 4.00% in 2024.
Daiwa	Expect 100bp hike in Nov 22 with a terminal rate of 5.25%.	75bp Nov22 hike with downside risks. Look for a terminal rate "no higher than" 4.75%.
Credit Suisse	Increased to 100bp Nov22 following fiscal statement with 4.50% terminal. Post-Sep MPC: 75bp in Nov22, 50bp in Dec22, 25bp hikes in Feb23 and Mar23 to a terminal 4.00%.	75bp Nov22 hike with 8-1 vote. Further 75bp hike in Dec22, 50bp in Feb23 and 25bp in Mar23 to a terminal rate of 4.50%.
Nomura	Expect 75bp hikes in both Nov22 and Dec22 then 50bp in Feb23 and 25bp in Mar23 to 4.50%. No longer expect cuts in forecast horizon (through the end of 2024).	Expect 75bp hikes in both Nov22 but dissents for 50bp more likely than for 100bp. Further 75bp hike in Dec22 then 50bp in Feb23 and 25bp in Mar23 to 4.50%.
UBS	75bp hikes in Nov22 and Dec22 with 50bp in Feb23 and 25bp in Mar23 to a terminal rate of 4.50% on the back of sterling depreciation and fiscal stimulus.	75bp Nov22 hike with "at least two MPC members" voting for a smaller increase. Further 75bp hike in Dec22 (with downside risks), 50bp in Feb23 and 25bp in Mar23 to 4.50%.
NatWest Markets	Post-Pill had looked for 100bp in Nov22, 75bp in Dec22 and 50bp in Feb23 to a terminal rate of 4.50%.	Expect 75bp hikes in Nov22 and Dec22 (but risks of 50bp at both meetings) with a final 50bp hike to 4.25% in Feb23 (but downside risk of 25bp).
Rabobank	Post-fiscal plan had looked for 100bp in Nov22 with a terminal rate of 4.75%. Post-Sep MPC meeting had been looking for 50bp in Nov22 with risk of 75bp and terminal 3.50%.	75bp Nov22 hike as BoE "needs to show markets that it is cognizant that confidence in the UK's institutional framework has been damaged." 50bp in Dec22 with 4.75% terminal.
Société Générale	Expect 50bp in Nov22 but 75bp is "clearly possible." Further 25bp hike in Dec22 to 3.00%. Will review GDP, deficit, Bank Rate and yield forecasts "in the coming days".	Expect 75bp hike with "several voting for 100bp". Thereafter look for 50bp hikes in Dec22, Feb23 and Mar23 to a terminal rate of 4.50%.
BNP	Had expected 100bp Nov22 hike with a terminal rate of 5.00% following the Fiscal Statement. (Prior to that had expected 75bp Nov22 hike with 3.50% terminal rate).	75bp hike in Nov22 with 6-3 vote. 50bp hikes thereafter in Dec22, Feb23 and Mar23 to a terminal rate of 4.50%.
Goldman Sachs	Post-fiscal statement had expect 100bp hikes in Nov22 and Dec22 with a terminal rate of 5.00%.	75bp hike in Nov22 with 6-3 vote (Dhingra, Tenreyro, Cunliffe voting for 50bp). 50bp hikes in Dec22 and Feb23 and 25bp hikes in Mar23 and May23 to 4.50%.
Deutsche	Expected 125bp Nov22 hike with 5.00% terminal rate following fiscal statement. Post-Sep MPC: 75bp Nov22, 50bp in Dec22, 25bp in Feb22 and Mar22 to 4.00% terminal rate.	75bp hike in Nov22 with 7-2 vote (Dhingra and Tenreyro to vote for 50bp). 50bp hikes in Dec22 and Feb23 then 25bp hikes in Mar23 and May23 to terminal 4.50%.
JP Morgan	75bp in Nov22 with terminal rate of 4.25% "by next spring". 50bp hikes in Dec22 and Feb23 with 25bp hike in Mar23. "Any forecast hugely dependent on MPC commentary."	"Feel fairly confident" of 75bp Nov22 hike. Look for 7-2 vote. 50bp hikes in Dec22 and Feb23 and 25bp hike in Mar23 to a terminal rate of 4.25%.
TD Securities	75bp hike in Nov22; 50bp hikes in Dec22 and Feb23 then 25bp in Mar23 to terminal 4.25%. Expect 175bp of cuts in 2024 to get Bank Rate back to 2.50%.	75bp hike in Nov22 with 8-1 vote (Dhingra dovish dissent). Then look for 50bp hikes in Dec22 and Feb23 before a final 25bp hike in Mar23 to a terminal rate of 4.25%.
Morgan Stanley	Post-fiscal had looked for 100bp Nov22 hike then 50bp hike in Dec22 and 25bp hikes Feb23 and Mar23 to 4.25%.	Expect 75bp Nov22 hike with 7-2 vote, with 50bp more likely than 100bp. Expect 50bp in Dec22 and 25bp hikes in Feb23 and Mar23 to terminal 4.00%. Cuts to begin Q1-24.
UniCredit	Post-fiscal had looked for 175bp hikes in Q4-22 and 50bp hikes in Q1-23 to a terminal 4.50%.	Expect 75bp Nov22 hike, 50bp Dec22 hike then 50bp of further hikes in Q1-23 to a terminal rate of 4.00%.
Pantheon	50bp in Nov22 and 25bp hike in Dec22 to 3.00%. No change to growth forecasts following Growth Plan as spending cuts in Budget could offset. No cuts until 2024 (back to 2.25%)	Expect 75bp Nov22 hike with "at least two" dovish dissents. Then 50bp hike in Dec22 and 50bp of hikes in Q1-23 to terminal 4.00%. 100bp of cuts in each of 2024/25 to 2.00%.
RBC	50bp hike in Nov22 and 25bp inDec22. "Still think that government's energy price interventions allows the MPC a bit more leeway" to take into account econ outlook.	75bp hike in Nov22 ahead of a 50bp hike in Dec22 and a final 25bp hike in Feb23 to a terminal rate of 3.75%.
Danske	Maintain call of 50bp hikes in Nov22 and Dec22 and 25bp hike in Feb23 to 3.50%. Risks "skewed towards additional hikes in 2023."	Expect 75bp in Nov22 but "it is a close call between 50bp and 75bp." Continue to expect 50bp Dec22 hike and final hike in Feb23 to bring the terminal rate to 3.75%.
Barclays	75bp hike in Nov22 and 50bp in Dec22. Don't think "economic fundamentals call for more hiking". "Risk of further small hikes (25bp per quarter, for instance into 2023)."	75bp hike in Nov22 with 7-2 split (dissents for 50bp). Final 50bp hike in Dec22 to 3.50% terminal rate (with upside risks of further "gradual and moderate" hikes in 2023).
Berenberg	Had expected 100bp Nov22 hike with 75bp Dec22 hike to a terminal rate of 4.00% with 25bp of cuts per meeting in H2-23 to 3.00% by end-2023.	75bp hike in Nov22 with final 50bp hike in Dec22 to a terminal rate of 3.50%. Two-way risks (25bp not 50bp in Dec22 or extra 25bp in Feb23). 50bp of cuts in H2-23 to 3.00%.
ING	Had looked for 75bp in Nov22 following the fiscal statement. Post-Sep MPC ING looked for 50bp in Nov22 and "at least 25bp if not 50bp" in Dec22 to "a little above 3%."	50bp hike in Nov22 is "narrowly more likely - though either way the committee is likely to be heavily divided." Expect that Bank Rate is "unlikely to go above 4%."
SEB	"Expect the BoE to raise the Bank rate by another 50bps on November 3, but also we add 50bps in the December meeting reaching a policy rate at 3.25% by the end of this year."	Nov22 decision a "close call" but expect 50bp rather than 75bp hike. MPC could decide on a "more aggressive" decision in Dec22. Forecast final 50bp hike in Dec22 to 3.25%.

Source: Analyst previews and MNI

Note: Sorted by magnitude of next hikes, then hikes this year, then terminal rate, then 2023 outlook.

Analysts' Key Comments (A-Z)

Bank of America: 75bp November hike with 7-2 vote and 4.75% terminal rate by May 2023

- Expect 75bp hike with 7-2 vote.
- BoE GDP forecasts: "2023 growth forecast at -1.3%, from -1.4% before, and cut 2024 to -0.7% from -0.4%."
- "Expect the BoE to continue forecasting inflation falling well below the 2% target in the medium-term. We expect the BoE to forecast 2/3 year ahead inflation at 1.5%/ 0.7% respectively."
- Expect further 75bp hike in December with 4.75% terminal rate by May 2023 with downside risks. Expect cuts to 4.00% in 2024.

Barclays: Look for 75bp November hike with 3.50% terminal rate reached in December 2022

- "Expect the BoE to hike 75bp at its November meeting, partly because of strong inflation/wage dynamics but also in response to some fiscal loosening (energy price guarantee)."
- "Divergence in views among the MPC members will not necessarily translate into the vote split. A display of (relative) unity would also be welcome against the volatile macro backdrop. We expect a 7/2 split vote for a 75/50bp hike."
- "Think that the case for voting in the wings (25bp or 100bp) is weak in the context of market turmoil as well as economic slowdown."
- "Forecasts are likely to show a shallower recession (than previously forecast), then a more tepid recovery when the energy price protection ends in April and fiscal policy turns restrictive.
- "Expect the Bank to show inflation jumping back above 10% in Q2 23 and decreasing very gradually for the rest of the year. Only in 2024, when energy base effects wash out, do we expect a more meaningful drop in inflation"
- "Expect a forecast made using unchanged interest rates to show inflation below 2% in the back end of the forecast (ie, an acknowledgment that monetary policy is already restrictive)"
- "The case for more hikes after November is not clear cut: we expect the BoE to deliver just one more hike, of 50bp in December, and leave the bank rate at 3.5% thereafter."
- "We note moderate upside risks to our call in 2023, as the BoE may choose to tighten further in a "gradual and moderate""

Berenberg: 75bp in November, 3.50% terminal rate with cuts to 3.00% in H2-23

- "We now look for the BoE to hike by 75bp to 3.0%, down from our previous call of 100bp. We continue to forecast a 50bp hike in December. We now expect the bank rate to peak at 3.5% in December."
- "The return to fiscal discipline under the new prime minister, Rishi Sunak, and chancellor, Jeremy Hunt, has reduced the pressure on the Bank of England (BoE) to "go big" at its upcoming meeting"
- "The risks to our new rates call are two-sided. They depend a lot on how the recession across the Western world unfolds and what the five-year fiscal plans at the upcoming budget on 17 November involve. A sharper-than-expected deterioration in economic activity during

Q4 combined with a significant fiscal tightening would argue for the BoE to hike by less in December – say, 25bp instead of 50bp.
- "If global momentum remains more robust than expected… inflation pressures may turn more persistent. If so, the BoE may need to hike one more time in February 2023."
- Base case sees 50bp of cuts in H2-23 to bring Bank Rate to 3.00% by end-2023 and then on hold through 2024.

BNP: 75bp November hike with 6-3 vote; 4.50% terminal rate in Q1-23

- Expect 75bp November hike with 4.50% terminal rate reached in Q1-23 (down from 100bp and 5.00% post-Fiscal Statement).
- Expect a 6-3 vote split
- "Although the MPC will have to justify the reason for upping the pace of rate hikes, we think it will not want to send a signal that 75bp moves are the new normal. It could even push back somewhat on market pricing of a terminal rate above 5%, just as Deputy Governor Ben Broadbent seemed to do on 20 October."
- Look for rate cuts in 2024.

Credit Suisse: 75bp hike with 8-1 vote; 4.50% terminal rate by March 2023

- Expect 75bp hike with 8-1 vote (one dissenter for 50bp).
- "Expect the medium-term inflation forecast to be below target and as a result the BoE to push back against market pricing of rate hikes."
- Had previously looked for 100bp November hike, but "the reversal of some fiscal stimulus measures and decline in risk premium in UK assets to reduce the pressure on the BoE to hike by 100bps".
- Continue to look for 4.50% terminal rate (with a further 75bp in December, 50bp in February and 25bp in March).

Daiwa: Downside risks to 75bp November hike with a terminal rate "no higher than" 4.75%

- Expect 75bp November hike with downside risks.
- "Given the additional fiscal policy support provided since the summer, and recent evidence on still-significant domestically-generated price pressures, on balance, we expect the Bank's inflation projections for eighteen months to two years ahead to be revised up.
- "Economic data since August also point to a greater likelihood that the UK economy is now in recession, with GDP now likely to have contracted as much as 0.5%Q/Q in Q3 compared to the BoE's forecast of -0.2%Q/Q."
- "Recent comments from BoE policymakers have made it clear that, until very recently, market pricing for the future path of Bank Rate had likely exaggerated the extent of monetary tightening required to return inflation back to target over the projection horizon."
- Expect "the terminal rate will be no higher than 4.75%."

Danske: Close call between 50bp and 75bp with a 3.75% terminal rate

- Expect a 75bp hike but "it is a close call between 50bp and 75bp."
- "Keep the rest of our forecast unchanged, expecting a 50bp hikes in December followed by a final 25bp hike in February 2023."

Deutsche Bank: 7-2 vote for 75bp in November with terminal rate of 4.50%

- Expect a 7-2 vote for a 75bp hike with Tenreyo and Dhingra voting for a 50bp hike.
- “Medium term price pressures are likely to fall even further than the August MPR projections, with CPI dropping to as low as 0.5% y-o-y in Q4-25.”
- “Expect the MPC to project a 1.25% drop in 2023 – in line with the Aug MPR, followed by 1% drop in 2024 (Aug MPR: -0.25%)... with the output gap reaching -3.5% by 2024.”
- Expect “CPI in Q4-23 running around 0.7pp above the Bank's August forecasts at 6.9% y-o-y, Q4-24 CPI running 0.3pp lower at 1.1% y-o-y, and Q4-25 CPI 0.3pp lower at 0.5% y-o-y.”
- “Don't expect any big changes to the MPC's forward guidance.”
- “Anticipate the Governor to talk up two things in the press conference: one, the impact of higher rates on household and business balance sheets resulting in perhaps an even more protracted recession; and two, the MPC discussions with Treasury on the potential fiscal offsets the Bank will have to take into account early next year, as part of its next forecast round.”
- “Risk management considerations, however, warrant further tightening and front loading of rate hikes, given increased volatility in inflation (with the Energy Price Guarantee slated to end in March 2023), a broadening out of price pressures, and a ratcheting up of wage and price growth in the year ahead. As such, policy will need to go a little further than anticipated, moving further into restrictive territory, particularly with inflation expectations slipping, and second round effects firming.”
- “Expect policy tightening to decelerate to a 50bps hike in December 2022 and February 2023. We then expect two further 25bps hikes in March and May to take Bank Rate to 4.5%... Risks to our view are broadly balanced, but perhaps slightly tilted to the downside.”

Goldman Sachs: Expect 6-3 vote for 75bp November hike with terminal rate of 4.50%

- “See less pressure for the BoE to act aggressively at next week’s meeting. But we still believe that a step-up in the pace to 75bp is likely given that (1) fiscal policy is on net more expansionary than assumed at the August MPR meeting; (2) news on the labour market and underlying inflation pressures has been firm; and (3) MPC commentary points to a robust policy response at the November meeting.”
- Expect a 6-3 vote with Dhingra, Tenreyro and Cunliffe voting for 50bp. “Do not expect any votes in favour of a larger step-up to 100bp, although that is possible.”
- “Do not look for significant changes to the forward guidance. We expect the MPC to retain its meeting-by-meeting approach and indicate that the Committee will “respond forcefully” as necessary.”
- “The market-implied path for Bank Rate… has tightened significantly by around 250bp… we expect the BoE projections to show a deeper recession and a larger undershoot to its inflation target over the medium-term.”
- “Believe it is more likely that the MPC steps down to 50bp in December already given weaker growth, tighter financial conditions, and recent BoE commentary that signals discomfort with recent market pricing. As a result, we now look for a terminal rate of 4.5% (vs 4.75% before) which would still take Bank Rate into clearly restrictive territory—which we think is appropriate given the underlying inflation pressures.”
- Look for further 50bp hike in February 2023 with 25bp hikes in March and May 2023.

ING: Look for 50bp in November with Bank Rate unlikely to go above 4%

- "50bp has become narrowly more likely – though either way the committee is likely to be heavily divided."
- See 5 reasons for a 50bp rather than 75bp hike:
    1. "The fact that we're essentially back to square one on the mini-budget also reduces the pressure for a jumbo hike."
    2. "The economic dataflow doesn't provide a clear enough justification for more aggressive tightening… the most recent inflation data was mostly as expected, while activity data has clearly deteriorated."
    3. "Trade-weighted sterling is actually now stronger than it was at the time of the September meeting."
    4. "The Bank will be acutely aware that hiking by 75bp sets a precedent"
    5. "The committee is divided… in September, one rate-setter – Swati Dhingra – voted for just 25bp. We think other committee members will remain reluctant to step up the pace of rate rises this late into its hiking cycle. That potentially heralds another three-way-vote-split."
- "The new set of forecasts due, which crucially are based on market interest rate expectations, are likely to be dismal – showing both a deep recession and inflation falling below target in the medium-term. That should be read as a not-so-subtle hint that market pricing is inconsistent with achieving its inflation goal."
- Continue to think that "Bank Rate is unlikely to go above 4%". Pencil in 50bp in December and a final 25/50bp hike in February.

JP Morgan: "Fairly confident" in view of 75bp November hike; expect 4.25% terminal rate

- "Feel fairly confident" expecting 75bp hike. Look for 7-2 vote (with Dhingra and Tenreyro both favouring 50bp).
- "The government's fiscal u-turn has greatly reduced the upside risk around this call, although a delay in the OBR date (which will see a large net tightening when it is announced) also helps to reduce some of the downside risk."
- "A still-tightening labor market will leave the BoE with a strong tightening bias. But a looming fiscal headwind will leave the MPC keen to communicate that it may need to step back down the tightening pace from December."
- "We expect the BoE will retain its "forceful" language in the statement accompanying the decision. The MPC's definition of this word appears fairly broad, as so retaining its would provide cover for either a 50bp or 75bp hike at the subsequent meeting in December."
- "Given the prospect of a large fiscal tightening to be announced in November, we think the MPC will be keen to emphasis in its communications that it is not on auto-pilot for 75bp hikes beyond next week's meeting."
- "The BoE's three year ahead inflation forecast was shown at 0.8% in August. Even assuming slightly higher growth and a smaller rise in the unemployment rate, its hard to see how the MPC will revise that number up by more than a small margin. We assume it will be shown falling to 1.0% at the end of the forecast horizon (based on market rates)."
- JP Morgan looks for 50bp hikes in December and February and then a final 25bp hike in March to a terminal rate of 4.25%.

Morgan Stanley: 75bp hike with greater chance of 50bp than 100bp; terminal rate of 4%

- "Still, we think the MPC will match market expectations in delivering a 75bp move, while presenting it as a one-off level shift."
- Expect a 75bp hike with a 7-2 vote.
- "Given the fiscal u-turn(s), as well as likely bearish forecasts, we now see a 50bp hike as more likely than a 100bp."
- "Think messaging will lean dovishly, and expect a 50bp move in December, followed by 2 more 25bp hikes, leaving the terminal rate at 4%."
- "Expect the Bank to stay on hold until 1Q24, when we expect the start of the cutting cycle."

NatWest Markets: 75bp with 7-2 vote in November with 4.25% terminal rate by February

- Forecast a 75bp hike with a 7-2 vote (Dhingra and Tenreyro voting for 50bp) with "risks now skewed more clearly to the downside."
- "Although the government has reversed three-quarters of its mini budget tax cuts, ~£15bn survived the cull and this will probably be sufficient to elicit another step-up in the pace of policy tightening."
- "Expect the central ('market rates') projection for CPI inflation to be lowered at the 2- and 3-year horizons in the November MPR forecasts vs those in August: ~1.8% at 2 years and ~0.4% at 3 years." However, expect constant rate forecasts to be revised up to around 3.1% at 2 years and around 1.5% at 3 years.
- Forecast "+75bp in December to 3.75% (risks of +50bp) and +50bp in February (risks of +25bp) to a peak of 4.25%. With the UK economy effectively in recession and with only a very partial pass-through from Bank Rate to mortgage debt-servicing costs, it is far from clear why Bank Rate would need to rise much above 4%."

Nomura: 75bp hike with risk of dovish dissents; 4.50% terminal rate

- "With some MPC members (Broadbent, Mann, the latter who voted for a larger hike in September) questioning whether the market is pricing in too much we think a 75bp move is pretty much baked in the cake, and any dissents are more likely to be for a 50bp hike rather than 100bp."
- "Shifting up from 25bp to 75bp is a big ask, so we would not be surprised if Ms Dhingra votes for a 50bp hike. Ms Tenreyro too could vote for 50bp, having voted more dovishly at the August meeting. We feel there is less risk of one of the September-75bp-voters voting for 100bp in November."
- "See a further 75bp hike in December, 50bp in February, concluding with a 25bp move in March to take rates to a peak of 4.50%."

Pantheon: 75bp hike in November with 4.00% terminal rate reached in Q1-23

- Expect 75bp hike in November with "at least two" members voting for a smaller increase.
- "The MPC won't overtly lean against markets' expectations, as neither the scale of the impending fiscal tightening, nor the persistence of inflation pressures, is clear at this stage. But Deputy Governor Broadbent's speech last week… showed growing unease at the BoE with market pricing. So we expect the MPC to emphasise the downside risks to its medium-term inflation forecasts."
- Look for 50bp hike in December with further 50bp of hikes in Q1-23 to terminal rate of 4.00%. Expect 100bp of cuts in each of 2024 and 2025 to 2.00%.

Rabobank: 75bp November hike with pace of hikes slowing thereafter to terminal 4.75%

- "We look for a 75 bps rise in Bank rate to 3.00% from 2.25%. It would still be the largest rate hike of this cycle. We expect to see rates peaking at 4.75%"
- "The central bank needs to show markets that it is cognizant that confidence in the UK's institutional framework has been damaged, but there is no need for crisis management anymore.
- "We think it will also be a one-off, allowing the central bank to move back to a more gradual pace of 50 bps and then 25 bps rate increases this winter."

SEB: 50bp November hike, but it is a close call; 3.25% terminal rate reached in December

- SEB acknowledge that it is a "close call" but expect a 50bp hike rather than a 75bp hike.
- "The fiscal policy has now changed direction, bringing back credibility and stability, and should weigh on growth. Moreover, it is a bit too early for the BoE to evaluate the whole fiscal picture… The MPC has a possibility to wait for the Budget announcement (due 17 Nov) and then decide if a more aggressive monetary policy is needed at the December meeting."
- "The overall message is expected to be hawkish."
- SEB expects a final 50bp hike in December to bring the terminal rate to 3.25%.

Société Générale: Look for 75bp November hike "with several voting for 100bp"

- "We maintain our forecast of a 75bp hike next week on the way to a peak of 4.5% at the March 2023 meeting."
- "Expect a majority to vote for 75bp but with several voting for 100bp."

TD Securities: 8-1 vote for 75bp November hike; terminal rate expect to be 4.25%

- "Expect the MPC to hike Bank Rate by 75bps, with a likely dissent for a 50bps hike from Dhingra. The remaining members of the MPC are likely to support a 75bps hike owing to the elevated fiscal uncertainty."
- "With fiscal policy still somewhat in flux (at least until the 17 November Autumn Statement), the MPC will likely remain cautious committing to any rate hikes beyond this meeting, instead continuing its meeting-by-meeting messaging."
- "We continue to expect 50bps hikes in Dec and Feb before a final 25bps hike in March takes the BoE to a terminal rate of 4.25%.

UBS: 75bp hike with at least two dovish dissents; look for terminal rate of 4.50%

- Expect 75bp hike "with at least two MPC members (Tenreyro and Dhingra) preferring a smaller increase."
- "Two reasons why the MPC is still likely to go for a 75bp hike. First, with the government's fiscal plans yet to be outlined, there is significant uncertainty about energy support measures as of April 2023, when Ofgem is set to review the energy price cap… Second, the MPC might still be concerned about inflation expectations with the September BoE Decision Makers Panel (DMP) showing a further increase in companies' longer-term inflation and wage expectations."
- Key focus "will be the new medium-term inflation forecast based on market interest rate expectations, which we expect to show a level below 2%, thus signalling pushback against current market pricing"
- "The BoE will deliver another 75bp hike on 15 December, followed by 50bp on 2 February and 25bp on 23 March, bringing Bank Rate to 4.5%.
- "In light of the recent stimulus roll backs and indications that further spending cuts and tax changes are likely to be announced in the autumn statement on 17 November, we see downside risk to our 75bps forecast for December and our terminal rate expectation of 4.5%."

UniCredit: 75bp November hike with 4.00% terminal rate

- Expect 75bp hike and have revised down estimates of the terminal rate from 4.50% to 4.00%.
- Expect 50bp hike in December and then a further 50bp of hikes in Q1-23.

mni Central Bank Watch - Bank of England

November 01, 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	10.1	9.4	↑	7.0	↑					1.57
Core CPI	% y/y	6.5	5.8	↑	5.7	↑					1.27
PPI Output	% y/y	-1.3	-0.9	↓	-0.7	↓					-1.00
Inflation Swap 5y/5y	%	3.49	3.67	↓	4.11	↓					-1.61
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	46.2	52.1	↓	55.8	↓					-2.15
PMI Services	Index	47.5	52.6	↓	58.9	↓					-1.28
Manufacturing Production	% y/y	-6.7	-4.7	↓	-2.2	↓					-1.49
Index of Services	% 3m/3m	-0.1	0.4	↓	1.1	↓					-1.11
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Consumer Credit	GBP Bn	0.75	1.78	↓	1.29	↓					0.25
Mortgage Approvals	K	66.79	63.46	↑	69.46	↓					-0.18
Lending Sec on Dwellings	GBP Bn	6.06	5.21	↑	7.34	↓					0.34
Nationwide House Prices	% y/y	7.2	11.0	↓	12.1	↓					-1.73
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	-6.9	-6.0	↓	2.2	↓					-0.94
Consumer Confidence	Index	-47.0	-41.0	↓	-38.0	↓					-1.01
Employment Chge 3m/3m	K	-109.0	297.0	↓	5.0	↓					-1.37
Ave Weekly Earnings 3m	% y/y	6.0	6.4	↓	5.6	↑					0.08
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	3935	4107	↓	4185	↓					-0.54
10-Year Gilt Yield	%	3.45	1.86	↑	1.91	↑					1.14
Gilt Curve (2s-10s)	bps	22.4	15.4	↑	31.4	↓					0.01
GBP TWI	Index	78.14	79.66	↓	80.20	↓					-0.39

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

Fiscal Squeeze Weighs On Scale Of Hike

By David Robinson, 31 October

The Bank of England is widely expected to announce a 75-basis-point rate increase on Thursday after its November meeting, with a fiscal squeeze and Bank projections that market pricing has overblown the amount of tightening required in this cycle reducing the chances of a larger hike.

Another fragmented Monetary Policy Committee vote looks likely, following the three-way split over September's 50 bps hike, though with more of a bias towards smaller rather than larger increases.

On the hawkish side, independent member Cathy Mann has advocated front-loading hikes. The UK labour market remains tight, and fellow MPC member Jonathan Haskel, who has highlighted the hit to labour supply from extensive long-term sickness, is unlikely to shift his views after backing 75 bps in September.

Other members will place greater weight on the potential deflationary effects of what looks like being a prolonged period of economic contraction or, at best, flat growth. Swathi Dinghra, who voted for 25 bps in September, could opt for the same again. Deputy Governor Ben Broadbent has indicated that market expectations for hikes over this cycle are overblown, noting that, if, as recent pricing suggested, Bank Rate rose to 6% from the current 2.25%, it would result in a five—percentage-point hit to GDP. Expectations have since scaled back to around 4.5%. (See MNI POLICY: Differences Within BOE Focus On Risks To Growth)

BUDGET DELAY

The delay until Nov 17 of the government's Medium-Term Fiscal Plan, originally planned for Oct 31, should have little effect on the vote, given that MPC members have already engaged with Treasury officials and are aware of the broad direction of policy under new Chancellor Jeremy Hunt. It could, though, dilute the importance of the BOE's quarterly forecasts, which have to take current fiscal policy as given.

Speculation ahead of the fiscal plan focusses on the extent of spending cuts and tax hikes necessary in order to put the budget on course for balance and the debt-to-GDP ratio on the road to decline in Office For Budget Responsibility projections. Unfunded tax cuts in Sept 23's mini-budget sparked a gilts sell-off, prompting first BOE intervention and then a sharp policy reversal under the new chancellor.

Various reports have anticipated a fiscal deficit between GBP30 billion to GBP50 billion, though this range reflects Treasury officials' sense of the margin they have in achieving their fiscal goals.

While the MPC will discuss interest rates, it will not need to revisit its decision to schedule GBP40 billion of gilt sales at the meeting.