BoE Review: 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

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MNI View: Forward non-guidance

Tim Davis, 4 November

The MPC voted to raise Bank Rate by 75bp in line with the MNI Markets' team and consensus view. Markets had been pricing in 70bp immediately ahead of the decision. Dhingra and Tenreyro both dovishly dissented as we expected (voting for a 50bp and 25bp hike respectively).

Bank guiding for more rate hikes but terminal rate below 5.25%

The Bank of England confirmed that the majority of MPC members thought more rate hikes would be needed (partly for risk management purposes) but also pushed back on market pricing much more explicitly than either we or other analysts had expected. However, it was later clarified in the press conference that the market pricing the Bank was pushing back on was the curve used in its forecasts – which implied a terminal rate of 5.25% and market pricing had already moved down to a bit below 4.75% ahead of the meeting. In the press conference, Bailey would not be drawn on whether it still believed market pricing at the current rates was still inappropriate, only that the MPC believed Bank Rate would end up somewhere above 3.00% and somewhere below 5.25%. At the time of writing, terminal rate expectations were around 7bp lower than immediately prior to the MPC meeting – at around 4.63%.

The Bank maintained its language about more forceful hikes – but with two dissenters hinting that they thought rates were already in restrictive territory – even this guidance lost a little of its potency.

Forecasts showed very low inflation expected

The Bank's forecasts were based on a 7-day average of market rates (rather than the usual 15-day) to take out some of the more extreme market moves in response to the government's fiscal credibility issues. At market rates in 3 years the Bank saw inflation falling to zero. Even under constant rates of 3.00%, inflation is seen at just 0.84% under the modal path in 3-years time (although it is worth noting the skew here with the median forecast at 1.24% and the mean forecast 1.34%). However, the weighting placed on these forecasts was very much downplayed both in the Statement and in the press conference.

Bank’s communication strategy more aimed at capping mortgage rates

Indeed, we think that the Bank’s communication strategy was more aimed at limiting upside moves in mortgage rates rather than trying to really guide markets too much. We think there are two reasons for this: first there is a very wide range of views on the MPC surrounding firstly where the neutral rate is and how far above there Bank Rate needs to go. The latest Market Participant Survey conducted by the Bank saw the median market estimate of the neutral Bank Rate at 3.00% - we are already there.

Second, we think that there is genuine uncertainty around the economic outlook, the labour market, fiscal policy and the replacement for the energy price guarantee in April that we think the MPC would prefer to make up its own mind on what rate should be appropriate to price in. This would be in line with Broadbent’s comments earlier this year that markets should be guided more by economic data and events than by central bank commentary.

Key data and Autumn Statement could change analyst expectations in coming weeks

This sets us up nicely for the next couple of weeks with some key events to look for to guide the rate outlook. Next Friday we will receive the first print of Q3 GDP but it will be the following week that could be pivotal – with labour market data, inflation, the Autumn Statement, GfK consumer confidence and retail sales all due between 15-18 November. We will receive another set of the majority of these data in the week of the December MPC, but there should be more clarity surrounding the outlook.

With these key events upcoming, it doesn’t surprise us that most analysts have maintained their existing forecasts and have merely pointed to the balance of risks changing. We think there is more scope for rate changes following the Autumn Statement – and following any MPC commentary after the data. The MNI Markets’ team remains comfortable with our view that a 50bp December hike looks most likely for now.

More news on the balance sheet due in next couple of weeks

On a side note, there was very little mention of balance sheet policy at the MPC meeting or in the press conference, although there was an acknowledgment that sales of long-dated gilts could potentially start in Q1-23. However, in a speech on Friday Executive Director of Markets Andrew Hauser noted that: "By skewing QE sales in Q4 to the short and medium-maturity buckets, we have avoided the part of the market most affected by the LDI crisis. Doing so also focuses our initial sales on sectors that have been particularly affected by QE-related collateral shortages, as shown by the elevated gaps between yields on gilts and swaps at the shorter end of the curve".

Hauser also said regarding the exit strategy for the “temporary” gilt purchases (rather than QE gilt purchases: "We have been working at pace to design an exit strategy that meets these goals, and will be announcing our initial approach shortly. Just as our financial stability purchases differed in important ways from QE so our initial financial stability sales will too: there will be no binding volume target for sales, but rather a demand-led approach guided by market appetite." When asked if the Bank will sell its temporary holdings this year. He has said we will "try and announce" a plan "shortly" and that we will should more information in a "week or two".

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.

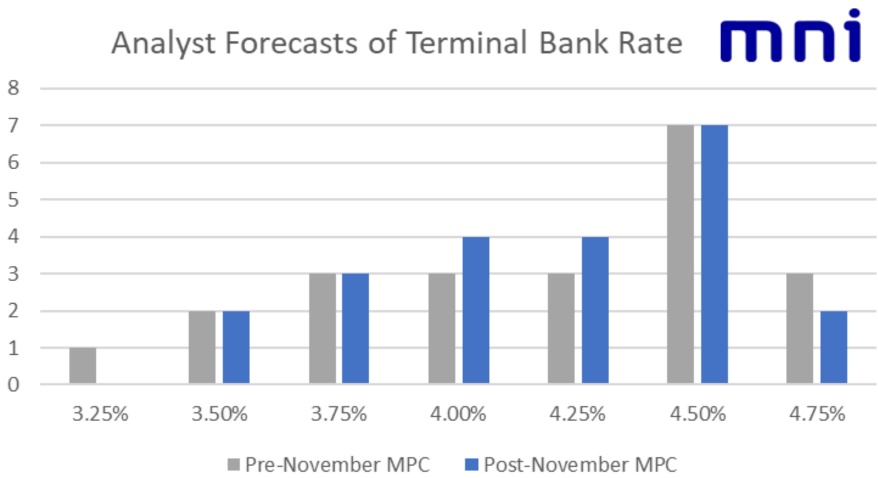
November Questions

1) Was the Bank Rate raised, and if so by how much? Yes, by 75bp to 3.00%.
2) Number of members voting for a 25bp hike (or unchanged)? One- Tenreyro.
3) Number of members voting for a 50bp hike? One- Dhingra.
4) Number of members voting for a 75bp hike? Seven.
5) Number of members voting for a 100bp or larger hike? Zero.
   NB: On questions 2-5 we will name the dissenters
6) Did the MPC drop its previously formatted September 'guidance'? No. The Committee reiterated that they would respond forcefully, as necessary again, should the outlook suggest more persistent inflationary pressures. The clause "including from stronger demand" was excluded.
7) If no to Q6, did the MPC still suggest "forceful" action could be required? N/A
8) If no to Q6, did the MPC suggest "significant" action could be required? N/A
9) If any 'guidance' was offered by the MPC, was it backed by all or by most/majority of the MPC? All.
10) Around what level and when do the MPC see CPI peaking? 10.9% in Q4 2022.
11) UK CPI rate in two years' time at market rates / constant rates (mode) Markets rates:+1.43% yoy / Constant rates: +2.16% y/y.
12) UK CPI rate in three years' time at market rates / constant rates of 3.00% (mode) Markets rates:+0.02% yoy / Constant rates: +0.84% y/y.
13) What is the Bank's forecast for Y/Y Q4 2023 GDP? -1.94% y/y.
14) What is the Bank's forecast for Y/Y Q4 2024 GDP? -0.13% y/y.

Also of note: The BOE stated (separate to the guidance) that the majority of the Committee sees further increases in Bank Rate may be required for a sustainable return of inflation to target, albeit to a peak lower than priced into financial markets.

Summary of Analyst Views

- 18/22 (82%) of analysts look for a 50bp hike in December while four analysts looking for 75bp all see downside risks (BofA, Nomura, NWM and UBS).
- Market pricing of 67bp sees around a 2/3 chance of a 75bp hike.
- Only three analysts have changed their forecast in the aftermath of the November MPC meeting:
  - Credit Suisse now look for 50bp (rather than 75bp in December) but maintain their terminal rate expectation of 4.50% - achieved one meeting later in May 2023.
  - Daiwa has revised down its forecast of the terminal rate from 4.75% to 4.25%.
  - SEB expect two 50bp hikes in December and February to a terminal rate of 4.00% (previously they had looked for 50bp in November and December to a terminal 3.25%).
- The median of terminal rate expectations remains 4.25%, although the mode remains higher at 4.50% and the mean have marginally increased from 4.18% to 4.19%.
- The terminal rate according to market pricing is around 4.72% at the of writing but only 2/22 analysts reviews that we have read expect a terminal rate of 4.75%.
- 82% of analysts expect a terminal rate in a 3.75%-4.50% range (up from 73% pre-meeting).
  - 2 analysts look for 4.75% (9% down from 14%)
  - 7 analysts look for 4.50% (32% unchanged)
  - 4 analysts look for 4.25% (18% up from 14%)
  - 4 analysts look for 4.00% (18% up from 14%)
  - 3 analysts look for 3.75% (14% unchanged)
  - 2 analysts looks for 3.50% (9% unchanged)
  - No analysts 1 analyst looks for 3.25% (down from 5%)
- The majority of analysts expect the final hike in February or March 2023.
- BofA, Credit Suisse, Deutsche Bank, Goldman Sachs and Rabobank all look for a May 2023 hike.
- Barclays and Berenberg expect the last hike to be in December.
- 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); View changes in bold

Institution	Pre-November meeting	Post-November meeting
Bank of America	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.	"Finely balanced" Dec22 call but maintain 75bp forecast. Also see downside risks to call for 4.75% terminal rate. Look for 50bp hike in Feb23 and 25bp hikes in Mar23 and May23.
Nomura	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%.	Expect 75bp hike in Dec22 with downside risks "but far too much key data between now and" Dec meeting "to change that now." 50bp hike in Feb23 and 25bp in Mar23 to 4.50%.
UBS	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%.	75bp with downside risks in Dec22. Then look for 50bp in Feb23 and 25bp in Mar23 to terminal 4.50%, also wit hdownside risks.
NatWest Markets	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).	Continue to look for 75bp Dec22 hike but with "high-ish risks" of 50bp. See a final 50bp hike in Feb23 to peak of 4.25%. Potential to add 1-3 year gilts to active sales operations.
Rabobank	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.	Expect 50bp in Dec22 and "don't fully buy into" the BOE's signalling of an accelerated "pace, to a lower peak for a shorter period of time." Expect 4.75% terminal rate.
BNP	75bp hike in Nov22 with 6-3 vote. 50bp hikes thereafter in Dec22, Feb23 and Mar23 to a terminal rate of 4.50%.	50bp expected in Dec22 but "cannot discount entirely" 25bp move. Assume further 50bp hikes in Feb23 and Mar23 to terminal rate of 4.50% with downside risks.
Société Générale	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%.	"Continue to predict a peak of 4.5% in spring 2023 but with an elevated downside risk to that forecast."
Credit Suisse	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%.	**50bp Dec22 hike given "BoE's dovish tone, decline in risk premium in UK assets and upcoming fiscal consolidation." 50bp in Feb23 and 25bp in Mar23 and May23 to 4.50%.**
Goldman Sachs	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%.	50bp hikes in Dec22 and Feb23 before 25bp hikes in Mar23 and May23. "The MPC will need to take Banke Rate into significantly restrictive territory."
Deutsche	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%.	Expect 50bp Dec22 and Feb23 hikes and then 25bp hikes in Mar23 and May23 to a terminal rate of 4.50% (with downside risks to the terminal rate).
JP Morgan	"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%.	Look for 50bp Dec22 and Feb23 hikes with final 25bp hike in Mar23 to a terminal rate of 4.25% with balanced risks.
TD Securities	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%.	Expect 50bp hikes in Dec22 and Feb23 with final 25bp hike in Mar23 to 4.25%. Could get clearer guidance at the Dec22 meeting with a "more settled view" of the econ outlook.
Daiwa	75bp Nov22 hike with downside risks. Look for a terminal rate "no higher than" 4.75%.	**Much will depend on fiscal policy but have revised down forecast of the terminal rate to 4.25%.**
SEB	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%.	**Expect two more 50bp hikes in Dec22 and Feb23 to a terminal rate of 4.00%.**
Pantheon	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%.	Only need to hike 50bp to hit 2% inflation target but expect 50bp in both Dec22 and Feb23 as MPC is nervous about upside inflation risks. 50bp cuts in 2024 and 100bp cuts in 2025
Morgan Stanley	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.	Expect 50bp Dec22 hike with 25bp hikes in Feb23 and Mar23 to a terminal 4.00%. Continue to expect cutting cycle to begin in Q1-24.
UniCredit	Expect 75bp Nov22 hike, 50bp Dec22 hike then 50bp of further hikes in Q1-23 to a terminal rate of 4.00%.	"We previously expected the bank rate to peak at 4% at the end of 1Q23, below market expectations, and in our view the risks are to the downside."
Danske	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%.	Expect 50bp in Dec22 and final 25bp hike in Feb23 to 3.75% with risks "skewed towards additional hikes in 2023."
ING	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%."	50bp hike in Dec22 with Bank Rate "unlikely to rise above 4% next year." BOE to move cautiously to allow mortgage rates to gradually fall.
RBC	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%.	Downside risks to 50bp Dec22 hike. Look for final 25bp hike in Feb23 to a terminal rate of 3.75%.
Barclays	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).	Expect final 50bp hike in Dec22 before "a prolonged status quo" but upside risks to both the 50bp in Dec22 and risks of a further 25bp hike in Feb23.
Berenberg	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%.	Expect final 50bp hike in Dec22 but with risks "slightly titled towards one further 25bp hike" in Feb23. Look for "modest" cuts of 50bp in H2-23.

Source: Analyst previews and MNI

Note: Sorted by magnitude of next hike, then terminal rate, then pace of hikes.

Analysts' Key Comments (A-Z)

Bank of America: December "finely balanced" with downside risks to 75bp call; downside risks to 4.75% terminal rate

- "It's not obvious to us that the BoE's forecasts are inconsistent with current market pricing of a terminal in the high 4s. So we see minimal implications for our forecast. The risks remain skewed down to our call of 4.75% terminal and the December meeting seems finely balanced between a 50bp and 75bp hike (downside risks to our call of 75bp)."
- "The BoE's two year ahead mean forecast now with Bank Rate peaking at 5.25% is higher than its two year ahead forecast from August assuming rates constant at 1.75%."
- "Key for us was that Deputy Governor's Ben Broadbent and Dave Ramsden seemed from the press conference to be in the hawkish camp."

Barclays: Expect final 50bp hike in December but risks of a further 25bp February hike

- "We caution against reading into this as an excessively dovish signal: we believe the pushback was predominantly designed to tame expectation of excessive tightening, rather than squash expectations of hiking."
- "The "modelling" choice of an extended Energy Price Guarantee (EPG), halfway between the current EPG and the Ofgem formula, is meaningful, as it lowers headline inflation forecasts because it is assumed to be universal, despite the stated government policy of extending the support through targetted measures, which will not be considered in scope by the ONS and will not lower headline inflation. If so, the Bank may find itself in a position to revise its 2023 inflation forecasts higher and consider addressing related second-round effects and risks around inflation expectations."
- "See some upside risks to to our baseline expectation of a 50bp hike in December, followed by a status quo (terminal rates at 3.5%), as the MPC may wish to extend the tightening cycle just a bit further, for instance by hiking 25bp in February. Equally, we see increasing downside risks in the back end of our rate forecast."

Berenberg: Look for final 50bp December hike; cuts to start in H2-23

- "While a lot will depend on upcoming fiscal announcement, today's BoE policy decision and guidance support our call that the BoE will hike bank rate just once more by 50bp in December to a peak of 3.5%. Thereafter, we expect the BoE to remain on hold in H1 2023 before cutting bank rate modestly (by c50bps) in H2 2023. The risks to this call are tilted slightly towards one further 25bp hike in February."

BNP: 50bp in December but "cannot discount entirely" 25bp; downside risks to 4.50% terminal rate

- "The language around today's announcements suggests a high likelihood that this will prove to be the first, and last, 75bp hike of this cycle. This was in line with our expectations, but our conviction in a downshift to 50bp at the next meeting has increased. We cannot discount entirely the possibility of a 25bp move."
- "We see a risks that either the MPC stops short of the 4.5% we expect, or is forced to deliver more rate cuts down the line than the markets are pricing in." BNP assume cuts will be in 2024.

- "Our current terminal rate forecast of 4.5% assumes 50bp moves at each of the next three MPC meetings."
- "It was significant that the MPC's inflation forecast, which assumes no further increases in Bank Rate, showed inflation more than 1pp below the 2% target at the end of the MPC's 3-year forecast horizon. This is the largest deviation in the forecast history"

Credit Suisse: Now look for 50bp December hike but continue to look for 4.50% terminal rate

- "The BoE's dovish tone, decline in risk premium in UK assets and upcoming fiscal consolidation imply that the 75-bp hike today is likely to be a one-off. We now think the BoE will hike by 50bps in December, compared with 75bps before."
- "Keep our terminal rate forecast unchanged at 4.5% in H1 2023 (50-50-25-25) and think the BoE will take longer to get there. We now expect the hiking cycle to continue until May 2023, compared with March 2023 before. Our view is that the BoE is underestimating the persistence and strength of domestic inflation and the tightness of the labour market."

Daiwa: Revise down expectations of terminal rate to 4.25%

- "While much will depend on the government's updated plans for fiscal policy to be announced on 17 November, as well as the nature of any further shocks that might hit the UK economy over coming months, we have nudged down our own forecast for the terminal rate to near the mid-point of those two extremes, to 4.25%." Daiwa had previously looked for 4.75%.
- Pencil in 50b hikes in December and February with a final 25bp hike in March 2023.

Danske: 50bp in December and final 25bp in February to 3.75%

- "We maintain our call for a 50bp hike in December and 25bp in February with risks to our call skewed towards additional hikes in 2023."
- "We expect fiscal tightening and recession to weigh on the economy, which in our view, supports a slower hiking pace going forward."

Deutsche: Expect 50bp December hike with downside risks to the 4.50% terminal rate view

- "Given the lags in monetary policy, and the scale of rate hikes already implemented to date (nearly 300bps over the last year), we now think the MPC will decelerate the pace of hikes going forward as it pushes closer to terminal. We see the MPC hiking Bank Rate by 50bps in December."
- "We stick to our view of Bank Rate peaking at 4.5%, though we see more downside risks to our call, following today's more dovish message from the MPC."
- "Expect the MPC to hike Bank Rate by 50bps in December and February, before slowing to 25bps hikes in March and May"

Goldman Sachs: Continue to look for 50bp December hike with a terminal 4.50% rate

- See MPC's "communication as consistent with our expectation that the MPC will return to a 50bp pace in December. At that point, the economy will likely be clearly in recession, measures of fiscal consolidation… will weigh further on the growth outlook, and other central banks (including the Fed and the ECB) will probably also step down their tightening pace."
- "We maintain our view that the MPC will need to take Bank Rate into significantly restrictive territory given the tight labour market, firm inflation momentum, and high wage pressures. Following a 50bp in December, we therefore look for another 50bp in February, 25bp in March, and a final 25bp in May for a terminal rate of 4.5%."

ING: Look for 50bp in December with Bank Rate "unlikely to rise above 4%"

- "The choice the Bank faces at coming meetings is one of hiking aggressively to protect sterling, or moving more cautiously to allow mortgage rates to gradually fall. With around a third of UK mortgages fixed for just two years, we suspect the latter option will increasingly be seen as more palatable. The dovish messages littered throughout today's statement and forecasts are a clear sign of that. We're pencilling in a 50bp rate hike in December and we think the Bank rate is unlikely to rise above 4% next year."

JP Morgan: Look for a 50bp December hike and 4.25% terminal rate with balanced risks

- "While broadly in line with our expectations, the forward guidance went further by explicitly pushing back on market terminal rate expectations. The BoE acknowledged the need to tighten more, but appears to be hinting at 4% or below rather than nearer to 5% as the resting point"
- Leave "forecast unchanged, with balanced risks (downside from future fiscal tightening, upside from further inflation persistence and labor market resilience)." Look for 50bp December hike, 50bp in February and 25bp in March to a terminal 4.25%.
- "While it is of course possible to deliver both (a) further rate increases and (b) a peak that is lower than the market expects, the guidance lacks any real teeth."

Morgan Stanley: Expect 50bp December hike then 25bp hikes in Feb/March to 4.00% terminal

- "We read the constant rate forecasts as implying that one more hike suffices to get inflation to 2%Y in 4Q24. While the BoE will almost certainly hike by more than just 25bp in the next few months, we read the statement and the projections as a (relatively) clear guide that the terminal rate, in the MPC's current view, is closer to 4% than 5%"
- "Near term, the step down from a one-off 75bp would be helped by a 50bp move from the Fed in December too, given ongoing concerns around sterling."
- "Beyond then, we look for another 25bp hike in February, and a final one in March, leaving the terminal rate at 4%. We continue to expect the cutting cycle to start from 1Q24."

NatWest Markets: 75bp December hike (with "high-ish risks" of 50bp) with final 50bp hike in Feb

- "The BoE – collectively, if not necessarily unanimously – is pushing back against a 5.2% peak in Bank Rate in Q3 2023. That might suggest a peak of 4¼% to 4¾% around May 2023 (if we think in terms of 50bp ranges and MPR months)."
- "Maintain our forecast for a 4.25% peak in February 2023 (+75bp in December with high-ish risks of +50bp, followed by a final +50bp rise in February)."
- "Brief comments at the end of the press conference hinted at the BoE's tolerance for the current stress in funding markets, which could mean more selling of shorter-dated bonds, we think, particularly given strong demand for the shortest bonds in this week's QT auction. This could go some way in cheapening front-end bonds vs swaps."
- "We don't rule out a move to including shorter dated bonds (perhaps 1-3y) in auctions going forwards – the demand for shorter bonds was clear in the BoE's first QT auction earlier this week"

Nomura: 75bp base case but risk of 50bp in December; look for terminal 4.50%

- "The Bank continued to talk about the potential to raise rates "forcefully", but on the dovish side a) two members voted for smaller hikes today, b) the Bank pushed back on market pricing and c) revised down its forecasts for inflation and GDP."
- "Our view of peak rates of 4.50% is thus lower than the BoE's view of what markets were pricing going into the meeting, so we remain comfortable with that view – and our profile of 75bp, 50bp and 25bp at the December, February and March meetings."
- "We think the risks are skewed to the Committee moving by less not more than that, notably the possibility of a 50bp move in December, but there's far too much key data between now and the December meeting (including two CPI and labour market publications) to make that change now."
- "it's worth noting the constant- (as opposed to market-) rate forecasts for GDP and inflation – GDP falls by 1.7% rather than 2.9%, while inflation ends the three-year forecast horizon at 0.8% rather than zero. While both are still weak, in the final year of the forecast inflation has been revised up (not down) by 0.2pp today based on constant rates."

Pantheon: Two more 50bp hikes to 4.00% but look for 150bp cuts in 2024/25 to 2.50%

- "The MPC's forecasts suggest it needs to raise Bank Rate only by a further 50bp to hit the 2% inflation target. The required tightening could be even smaller, depending on the size and timing of upcoming fiscal measures. The MPC, however, still is nervous about upside inflation risks, so we still expect Bank Rate to rise to 4.0%."
- Pantheon expects 50bp hikes in both December and February.
- Pantheon "think the Committee will reduce Bank Rate by 50bp over the course of 2024 and by 100bp during 2025, in order to try to close the output gap and bolster muted domestically-generated inflation. We think that the neutral level of Bank Rate for an economy with long-term growth prospects as poor as the U.K. is about 2.0-to-2.5%."

Rabobank: 50bp December hike but still expect 4.75% terminal rate

- The BoE is "signalling it is accelerating the pace, to a lower peak, for a shorter period of time. We don't fully buy into this and expect the central bank to raise rates by 50 bps in December and eventually to 4.75% next year. This further amplifies the recession, but the UK's inflation situation increasingly looks like a mix of the US's and the eurozone's. In other words: a recession may be required to quell inflation."

RBC: Downside risks to 50bp December hike with a 3.75% terminal rate

- The MPC "meeting and press conference did little to change our view that [yesterday's] 75bps rate hike would prove a oneoff. That was the message we took from the discussion on the projections based on constant vs. market implied assumptions that was so prominent in the press conference. But it is also because today's MPR forecasts are conditioned on fiscal policy as per the Treasury's announcement on October 17th"
- "We retain our current call for the MPC to deliver a 50bps increase at its December meeting followed by a 25bps increase in February that would leave Bank Rate at 3.75% at the end of the current tightening cycle. However… we think the risks to that December call remain tilted to a smaller rate hike relative to our current expectations."

SEB: Look for two more 50bp hike and revise terminal rate forecast to 4.00%

- "Economic risks are growing and the recession outlook over the coming two years has been more stressed than before. We expect the MPC to hike by 50bps to 3.50% in December, and by another 50bps in February to 4.00%."
- SEB had previously expected 50bp hikes in November and December to a terminal rate of 3.25%.

Société Générale: Continue to expect 4.50% terminal rate "but with a strong downside risk."

- "The committee, if anything, has become more, not less, concerned about the tightness of the labour market. We think that the MPC's guidance has been driven by its general expectation of a fresh hit to growth from the forthcoming Autumn Statement policy changes."
- "We maintain our existing forecast of a peak in Bank Rate of 4.5% to be reached by spring next year but with a strong downside risk."

TD Securities: Look for two 50bp hikes then final 25bp in March to 4.25%

- "With the Autumn Statement coming up on 17 November, we think it's only at the December meeting that the MPC will have a more settled view of the economic outlook, and perhaps at this point they'll start to provide clearer guidance on their expectations for the terminal rate, as well as the pace of hikes at coming meetings."
- "The BoE's two scenarios can be thought of as giving a range for the eventual macroeconomic outcome."
- "We continue to expect 50bps hikes at their next two meetings, followed by a final 25bps hike in March to take Bank Rate to a terminal rate of 4.25% before a pause through the rest of 2023."

UBS: Downside risks to 75bp in December and to 4.50% terminal rate expectations

- Had assumed a further 75bp hike in December, 50bp in February and 25bp in March. “While we maintain this call, we reiterate downside risks both in terms of the pace (75bp vs 50bp in December) and our terminal rate expectation.”
- UBS “see three key signposts: 1) October CPI and labour market report… 2) autumn fiscal statement… 3) indicators of companies and consumer inflation expectations.”

UniCredit: Downside risks to 4% terminal rate forecast

- "We previously expected the bank rate to peak at 4% at the end of 1Q23, below market expectations, and in our view the risks are to the downside."

MNI POLICY TEAM INSIGHTS

Further Hikes Likely, Market Peak Overblown

By David Robinson, 3 November

The Bank of England hiked Bank Rate 75 basis points to 3.0%, at Its November meeting, with the majority of members taking the view that more hikes were likely needed while hammering home the message that the recent implied market peak of 5.25% was overblown.

BOE Deputy Governor Ben Broadbent told a press conference following the decision that it was true that both further tightening was likely and that the Monetary Policy Committee thought the policy rate was "not likely not have to go as far as 5.25," the peak of the market curve used in the Bank's forecasts.

"We never said we are aiming for a soft landing," Broadbent said.

While the 75– basis– point increase was widely anticipated, after markets rowed back on previous expectations of a hike by 100 basis points or more following the partial reversal of fiscal easing in September's ill-fated mini-Budget, the forecasts in the Bank's Monetary Policy Report were striking. They showed inflation on the market rates path heading down to near zero and even on a constant rate path undershooting the target by a considerable distance.

On the constant rate path the target CPI inflation measure was shown at 2.16% in two years' time, just above the 2.0% target, before falling to 0.84% in three years while on the market path it was at 1.43% in two years and 0.02% in three. Governor Andrew Bailey said officials expected the policy rate to follow a path "nearer to the constant rate curve than the market curve."

UPSIDE RISKS

Bailey and colleagues stressed the risks around the central forecast, with inflation risks very much to the upside. The detailed projections showed that the skew, the difference between the mean and the mode, was 0.5% to the upside at the two– and three–year points on both market and constant rates. Individual members place hefty weight on their own perceived risks around the forecasts and the skew shows that on constant rates inflation could be 0.7 percentage points above target two years out.

This balance of risks, with MPC members concerned about persistent inflation, in part due to a tight labour market and elevated inflation expectations, helps to explain how the committee continues to expect to tighten further despite showing a marked inflation undershoot on its central, modal projection.

Broadbent highlighted the contrast between the challenges faced by policymakers in the UK and elsewhere in Europe, where surveys suggest contraction, and those in the U.S., where purchasing managers' surveys suggest that activity is back around pre-Covid levels.

LOW PARTICIPATION

The BOE forecast an eight–quarter, shallow recession for the UK, starting in Q3 this year, with unemployment rising to 6%. Asked by MNI, Broadbent replied that the risks around the jobless rate forecast were balanced.

For now, the labour market remains tight with the Monetary Policy Report noting that inactivity in the UK was much higher than in other developed economies. The rise has been concentrated in older working age people, aged 50 to 64, and the Bank noted data showing that around a fifth of these were on health service waiting lists.

The MPR did not contain any comprehensive review of the labour supply. It highlighted uncertainties still surrounding energy prices and global developments.