BoE Review: February 2023

Summary/Minutes: https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2023/february-2023
Monetary Policy Report: https://www.bankofengland.co.uk/monetary-policy-report/2023/february-2023

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MNI View: Data dependence is back

Tim Davis, 3 February

The MNI Markets team had expected a 50bp hike at the February 2023 MPC meeting, and had thought that there was better risk-reward to position for a dovish outcome. Our base case had seen more dovish dissents (on top of Dhingra and Tenreyro) but we had also noted that we would expect a dovish market reaction if "forceful" was removed from the guidance and there remained just the two dovish dissenters.

The BOE did indeed drop "forceful" and the new guidance is much more conditional on the data:

"If there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required."

First, this implies that if the data comes in in line with the Bank's base case, then we may no longer need any further hikes – something that is also evident in the Bank's modal CPI forecasts being so far below target. Second, by taking out "forceful" it suggests that any further hikes are more likely to be 25bp rather than 50bp.

The MPC are going to be focusing on three things going forward: service inflation, inflation expectations and wage growth. We have labour market data due on 14 February and 14 March as well as inflation data on 15 February and 22 March. The BOE's next meeting will take place on 22 March with the decision published on 23 March, so they will have sight of all of these data when making their decision.

We note that these data have consistently surprised to the upside in recent months, and think there is a good chance that at least in the next couple of months we continue to see these data come in higher than the BOE base case. Therefore we think that the market pricing of one final 25bp hike in March, as well as the new analyst consensus expecting the same, looks appropriate.

There has been focus on Dhingra and Tenreyro's views in the Minutes:

"That implied the current setting of Bank Rate would be likely to reduce inflation to well below target in the medium term. As the policy setting had become increasingly restrictive, this would bring forward the point at which recent rate increases would need to be reversed."

The BoE's Survey of Market Participants shows the median of market participants expect the neutral rate to be 3.00% - and we are well in excess of that now. We think there is scope for one of these members to vote for a cut later this year, but think services inflation and wage growth are likely to remain too sticky for a consensus of MPC member to join them.

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.

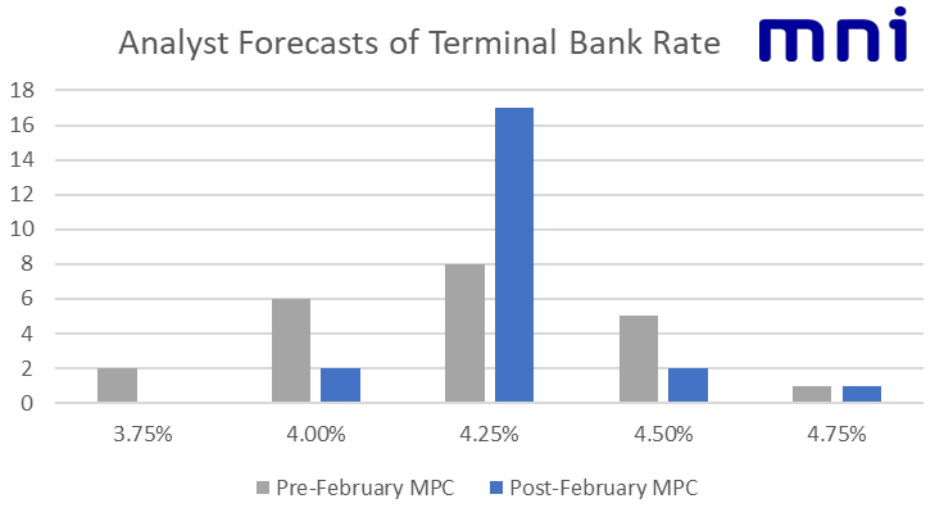
February Questions

1. Was the Bank Rate raised, and if so by how much? Yes, by 50bp to 4.0%
2. Number of members voting for unchanged rate (or cut)? Two for unchanged- Dhingra and Tenreyro.
3. Number of members voting for a 25bp hike? 0
4. Number of members voting for a 50bp hike? 7
5. Number of members voting for a 75bp or larger hike? 0
   NB: On questions 2-5 we will name the dissenters
6. Did the MPC say, that in the run-up to the February policy decision, it believed market pricing was over-estimating the peak for Bank Rate? No
7. Did the MPC again say “forceful” action could be used “if required”/ “as necessary”? No
8. If any ‘guidance’ was offered by the MPC, was it backed by all or by most/majority of the MPC? N/A
9. Did the MPC say "Any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent"? No
10. Did all/most of the MPC say the bank rate is now likely close to / at its peak (or similar)? No
11. At what level does the BOE MPC see the NAIRU? (last estimate at 4.25%)? The MPC sees the rate just above 4% (no numerical value), yet highlights volatility in recent data.
12. UK CPI rate in two years' time at market rates (mode) +0.95%
13. UK CPI rate in two years' time on constant rates (mode) +0.83%
14. UK CPI rate in three years' time at market rates (mode) +0.37%
15. UK CPI rate in three years' time on constant rates (mode) +0.19%
16. What is the Bank's forecast for QQ Y/Y Q1 2024 GDP? -0.71%
17. What is the Bank's forecast for QQ Y/Y Q1 2025 GDP? +0.18%

In the February statement, the MPC stated it would "continue to monitor closely indications of persistent inflationary pressures ..... If there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required."

Summary of Analyst Views

- There has been a large swing in analyst expectations towards a 4.25% terminal rate.
- Out of 23 sellside reviews, 17 of those now look for a 4.25% terminal rate (more than double the 8 prior to the meeting).
    - Switching from 4.50% to 4.25%: Barclays, Deutsche Bank, Goldman Sachs
    - Switching from 4.00% to 4.25%: Bank of America, Berenberg, CIBC, Morgan Stanley
    - Switching from 3.75% to 4.25%: HSBC, RBC
- For the March meeting:
    - SocGen looks for a 50bp hike
    - Citi and Pantheon for an on hold decision
    - UniCredit isn't committing between on hold and a 25bp hike.
    - All other analysts look for a 25bp hike.
- Berenberg, Citi and UBS continue to look for cuts to begin in Q4-23. All other analysts expect no cuts before 2024.



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

Institution	Pre-February meeting	Post-February meeting
Société Générale	50bp Feb23 hike and "possible that at least one member" may join 2 dovish dissenters. Expect final 50bp hike in Mar23 to terminal 4.50%.	Continue to expect final 50bp hike in Mar23 to 4.50% with a risk of a 25bp hike.
Rabobank	50bp Feb23 hike with 7-2 vote (50/unch). Continue to expect further 25bp hikes in Mar23, May23 and Jun23 to a terminal 4.75% with no cuts before 2024.	Continue to expect 25bp hikes in Mar23, May23 and June23 to terminal 4.75% "even if a deeper recession may damage bottom lines." Downside risks to the call.
JP Morgan	50bp Feb23 hike; 7-2 vote (50/unch). Better ways of signalling 25bp hike than keeping "forceful" language. Look for 25bp hikes in Mar23 and May23 to terminal 4.50%.	MPC shifted to more data-dependent mode. Measures of inflation persistance to remain so look for 25bp in Mar23 and May23 to terminal 4.50%.
Credit Suisse	50bp Feb23 hike; 6-1-2 vote 50/25/unch. Risk "forceful" is dropped. 25bp hikes in Mar23 and May23 due to persistence and strength of domestic inflation. No 2023 cuts.	Continue to expect 25bp hikes in both Mar23 and May23 to 4.50% as the BOE is unlikely to see enough evidence of a convincing slowdown in underlying inflation until the summer.
TD Securities	50bp Feb23 hike with 1 vote for 25bp, 2 for unch and Mann 50/75bp. 1/3 chance of a 25bp Feb23 hike. Base case: final 25bp Mar23 hike with 4.25% terminal rate.	Base case is for final 25bp hike in Mar23 to terminal 4.25% but risks are skewed to a further 25bp May23 hike (around a 40% chance in line with market pricing).
ING	50bp Feb23 hike with 6-1-2 vote split 50/25/unch. Final 25bp in Mar23 to terminal 4.25%. Expect "forceful" language to remain to keep options open.	25bp Mar23 hike as unlikely wage growth or service sector inflation has peaked. Risk of 25bp in May23 if core inflation shows few signs of easing. Cuts unlikely for at least a year.
Danske	Latest data support another 50bp Feb23 hike and also look for a further 25bp hike in Mar23 to terminal 4.25%. Don't expect cuts before 2024.	Expect final 25bp hike in Mar23 to 4.25%. Potential for further hikes down the road due to wage data and service inflation. Don't expect cuts before 2024.
NatWest Markets	50bp Feb23 hike with 6-1-2 vote split 50/25/unch. Final 25bp in Mar23 to terminal 4.25%. Removal of "forceful" would be a "powerful signal." Cuts starting Q1-24 to 3.50%.	Final 25bp hike in Mar23 with risks tilted marginally towards a further 25bp in May23. Do not expect 2023 cuts due to sticky core inflation but see 25bp cuts in Q1/2/3-24 to 3.50%.
Deutsche	50bp Feb23 hike; 6-1-2 vote 50/25/unch. Guidance may change to "modest hikes" and drop "forceful." 25bp hikes in Mar23 and May23 to 4.50%. 25bp/Q cuts beginning in Feb24.	**Onus on data to keep rate hikes on the table. Final 25bp hike in Mar23 to 4.25% terminal. Risk of hikes in H2-23 if wage data stronger than exp. Cuts in 2024 to around 3.0-3.5%.**
HSBC	25bp hike with 3-4-2 vote split 50/25/unch. Base case sees no further hikes but 50bp in Feb23 possible, as is 25bp in Feb23 with 25bp in Mar23.	**Final 25bp hike in Mar23 as core inflation and labour market data fail to soften in coming months. On hold at 4.25% through end-2024 thereafter.**
Daiwa	50bp Feb23 hike with "non-negligiable risk of" 25bp. Guidance "might be more equivocal." Final 25bp Mar23 hike to 4.25% then 100bp cuts from mid-2024 to 3.25% by end-2024.	Look for 25bp in Mar23 to terminal 4.25%. Cannot rule out further hikes. Rate cuts look set for discussion by end-2023. Forecast 100bp cuts from mid-2024 to 3.25% by end-2024.
Goldman Sachs	50bp Feb23 hike; pencil in 6-1-2 vote 50/25/unch and expect "forceful" to be replaced by meeting-by-meeting approach. Further 25bp hikes in Mar23 and May23 to 4.50%.	**Recent prints suggest rebalancing of the labour market has begun and inflation expectations have started to moderate. Look for final 25bp Mar23 hike to 4.25%.**
CIBC	Expect 25bp hikes in Feb23 and Mar23 to terminal 4.00%.	**Expect final 25bp hike in Mar23 but as headline CPI is set to remain above target into 2024 do not expect the Bank to consider any cuts in 2023.**
Bank of America	Base case 25bp Feb23 hike (but risks skewed heavily to 50bp). Final 25bp in Mar23 (irrespective of Feb move) to terminal 4.00%. 25bp cuts in Feb24 and Aug24 to 3.50%.	**Final 25bp in Mar23 sees terminal rate forecast raised to 4.25%. Bar to raising rates this year will be high as BOE but expect 2x25bp cuts in 2024 with risks skewed to fewer.**
BNP	7-2 vote for 50bp hike with Dhingra and Tenreyro voting for no change. Possible change in guidance to remove "forceful". Final 25bp in Mar23 to terminal 4.25%. No cuts until 2024.	Final 25bp hike in Mar23 to 4.25% terminal rate. Outside of Dhingra and Tenreyro the bar to cut this year is high due to weakness of supply. Look for 75bp of cuts in 2024 to 3.50%.
Nomura	50bp Feb23 hike with three-way vote split (at least two unch with some 25bp votes). Final 25bp hike in Mar23 to terminal 4.25%. 3x25bp cuts in May24, Jun24, Aug24 to 3.50%.	"Comfortable" with call for final 25bp hike in Mar23 as concerns about inflation unlikely to have been assuaged by then. In mid-2024 3x25bp cuts in May24, Jun24, Aug24 to 3.50%.
Barclays	50bp Feb23 hike with 7-2 vote (50/unch) with risks of a more dovish split. 25bp hikes in Mar23 and May23 to terminal 4.50% with 25bp cuts in Q3-24 and Q4-24 to 4.00%.	**Judge the burden of proof still lies on the side of abating inflation persistence and look for one final 25bp hike to 4.25%. 2x25bp cuts in Q3-24 and Q4-24 to 3.75%.**
RBC	Expect 25bp hike with CPI fancharts showing inflation falling below target at the medium-term horizon.	**Debate at Mar23 meeting will be between on hold of 25bp hike. Base case sees final 25bp hike to 4.25%due to labour market's potential to surprise and the 7-2 vote split in Feb23.**
Morgan Stanley	25bp hike with 2-5-2 vote split 50/25/unch. Final 25bp hike in Mar23 to terminal 4.00%. Expect 150bp of cuts starting in Feb24 and accellerating over 2H24.	**Expect 25bp Mar23 hike to 4.25%; very close call between hold or hike. Mar23 guidance to indicate holding policy rate. Continue to expect 150bp cuts in 2024 starting Feb.**
UBS	50bp Feb23 hike but chance Dhingra / Tenreyro could switch to voting for 25bp hike. Final 25bp hike in Mar23 to 4.25%. Cuts from Nov23 to 3.75% by Q4-23 and 2.50% by end-2024.	Continue to expect one final 25bp hike in Mar23 to 4.25% with balanced risks to the call. Cuts from Nov23 to 3.75% by Q4-23 and 2.50% by end-2024.
Berenberg	25bp Feb23 hike but close decision for the six members who voted for 50bp previously. Expect 25bp in Mar23 to terminal 4.00%. Cuts begin in Q4-23 to 3.00% by end-2024.	**Look for 25bp in Mar23 to terminal 4.25%. However, expect first cuts in Q4-23 to 3.75% by end-2023 and then a further 75bp of cuts in H1-24 to 3.00%.**
UniCredit	25bp Feb23 hike with Mann voting for more and Dhingra and Tenreyro on hold. "Acknowledge high risk of 50bp." Final 25bp Mar23 hike to 4.00% then 75bp cuts in 2024.	Whether there is a 25bp or not in Mar23 "is in the balance." Pencil in rate cuts of 75bp to start in Q2-24 but sooner if rates rise above 4.00%.
Pantheon	Expect 50bp hike with 1-5-1-2 vote split 75/50/25/unch. Expect this to be the final hike but risks are to the upside. Expect 50bp of cuts in 2024 back to 3.50%.	Expect that this was the final hike of 2023 and to keep Bank Rate at 4.00% until end-2023. Expect 50bp of cuts in 2024 back to 3.50%.
Citi	Expect final 50bp hike with 6-1-2 split (50/25/unch) to terminal 4.00%. Look for cuts to begin November.	Expect we have seen the last hike. See around 30% probability of an additional hike in May23 or Aug23. Look for cuts to begin in November (with an initial 25bp).

Source: Analyst previews and MNI

Note: Sorted by magnitude of next hike, then terminal rate, then pace of hikes, then end-2023 rate, then end-2024 rate.

Analysts' Key Comments (A-Z)

Bank of America

- "We argued in our preview that whether the BoE hiked 50bp or 25bp today we would expect a final 25bp hike in March before the BoE goes on hold. We stick to that view. With the larger than we expected hike today, however, that means we raise our terminal rate call slightly to 4.25% from 4.0%."
- "The BoE seems to need hawkish surprises to justify hiking any further. And we think the data are more likely than not to surprise on the upside."
- "The BoE's focus on risks today suggests to us that while they may feel comfortable pausing with rates in restrictive territory the bar to easing rates would be high. The BoE will likely want strong confirmation that wage growth is returning to more sustainable levels. We suspect that won't be forthcoming this year. We also think the UK has more of a problem with inflation expectations than other countries. Accordingly, we think it's more likely that the BoE holds Bank Rate at terminal through 2023 rather than cutting by the end of the year (or hiking more and cutting more). We expect two 25bp cuts in 2024, with risks skewed to fewer."

Barclays: No longer look for May hike; final 25bp in March

- "The updated guidance heavily signalled that the Bank is approaching the end of the tightening cycle. Consequently, we no longer expect a May hike, and see the final 25bp hike in March, taking the terminal rate to 4.25%."
- "while we acknowledge the Bank's relatively benign assumption on inflation persistence as a sign that the Bank feels comfortable in soon ending the tightening cycle, we do not take it completely at face-value given that the MPC went to great lengths to stress that the "risks to the inflation outlook are skewed significantly to the upside"."
- "As such, we see scope for further tightening in monetary policy from here, but less than we previously forecasted."
- "We judge that the burden of proof still lies on the side of abating inflation persistence. Given our near-term outlook, we think there is space for one more 25bp hike."
- Look for two 25bp cuts in 2024 to 3.75%.

Berenberg: Now look for 4.25% terminal rate

- "We raise our call for peak bank rate to 4.25% from 4.0% following the 50bp hike at the BoE's February meeting."
- "In H2 2023, the BoE will then likely cut bank rate by 50bp followed by three 25bp cuts in early 2024, before keeping it on hold at 3% through the remainder of 2024."
- Berenberg pencils in 50bp of cuts in Q4-23, 50bp in Q1-24 and 25bp in Q2-24 back to 3.00%.

BNP: Continue to expect final 25bp hike in March

- "Our key takeaway from the Bank of England's February meeting is that it is close to ending the tightening cycle. We continue to expect one more 25bp move in March and for rates to be left on hold for the rest of 2023."
- "Interestingly – though arguably logically, as those members thought the MPC should have paused at 3.00% – the minutes suggested that Dhingra and Tenreyro could vote for cuts at upcoming meetings… Admittedly, we would not extrapolate this to the rest of the committee, which we think will need to see considerably more evidence of weakening underlying inflation before being even close to contemplating rate cuts. Nonetheless, we think the rest of the committee is likely close to at least voting to end the tightening cycle."
- "Weakness in supply is one of the reasons why we think that there is a high bar for the majority of the committee to vote to cut rates. Indeed, we think it will need to see considerably more evidence of underlying inflationary pressures (in particular those stemming from the labour market) cooling. This, for us, is more likely to be a story for 2024. What's more, we would emphasise that we see Bank Rate ending 2024 at 3.5% – materially higher than in the recent past."

CIBC: Adjust terminal rate higher to 4.25%

- "The adjustment in the policy language point to a policy moderation (25bps) in March, which reflects the removal of the reference to acting "forcefully"." This would lead to a terminal rate of 4.25%.
- Had previously expected 25bp hikes in February and March to a terminal 4.00%.
- "As headline CPI is set to remain above target into 2024 we would not expect the bank to consider it appropriate to consider any reversal of policy in 2023."
- "Regard policy as becoming increasingly restrictive, as we believe neutral is 3.00%."

Citi: Expect we have seen the last hike and look for cuts to begin in November.

- Read the "decision as indicative of a likely pause in March."
- "The tentative tone of the MPC's communication points to continued and acute sensitivities particularly around services inflation and wage growth – with hawkish risks especially large into the May and August meetings in our view. But benchmarking the Bank's forecasts to our own, we see few obvious signs of an overshoot between now and either March or May. We are therefore left with the conclusion that the committee is likely on hold from here – if with hawkish risks. We expect the MPC on hold until November, when we continue to expect a 25bps cut."

Credit Suisse: Continue to look for two more 25bp hikes

- "Future guidance suggests a downshift in the pace of hiking and a data-dependent approach."
- "However, we continue to think that it is too early for a pause and the BoE is likely to hike rates to a more hawkish-than-consensus 4.5% by May 2023." (2x25bp hikes).
- "We expect the labour market to remain tight and wage pressures/services inflation to continue to rise and overshoot expectations across the next few months. We think the BoE is unlikely to see enough evidence of a convincing slowdown in underlying inflation until the summer."

Daiwa: Final hike in March with risk of more; cuts also up for discussion by year-end

- "With the labour market still very tight, we suspect the threshold for further tightening will be met next month. So, we maintain our expectation of a further hike of 25bps to 4.25% in March. But we also still think that will represent the peak for the cycle."
- "We also cannot rule out the possibility that there will be no further hikes from here. And rate cuts now look set to be up for discussion by the end of the year."
- Daiwa's forecast looks for 100bp of cuts from mid-2024 to 4.25% by end-2024.

Danske: Final 25bp hike in March but no cuts until 2024

- "We think the statement and press conference confirm our call of a final hike in March of 25bp. The key concern for the BoE remains developments in wage data as well as service inflation, which leaves a potential for further hikes down the road."
- "We do not expect any cuts to materialize before 2024."

Deutsche: Final 25bp in March but risk of hikes in H2-23

- "While not explicitly signalling a pause in the hiking cycle, the MPC has now put the onus on underlying inflationary data (i.e. services inflation, wage growth, and pay settlements) to keep rate hikes on the table going forward."
- "All three we think will remain relatively robust and track higher than the Bank's February projections... The Spring Budget will also likely see some easing in fiscal policy... Should the data come in line with our expectations, we expect the MPC to lift Bank Rate one more time to 4.25%, before committing to a more explicit conditional pause in May."
- Previously Deutsche Bank had expected 25bp hikes in both March and May.
- "We now see rising risks that the MPC may be forced to hike Bank Rate later in H2-23, if wage settlements continue to come in stronger than expected, and the pickup in economic growth over H2-23 starts to buoy price pressures. Indeed, our own wage growth forecasts have AWE Regular Pay settling at around 5% in Q4-23 – 1pp above the MPC's forecasts."
- "We continue to see some modest rate cuts as a 2024 story. And with the neutral rate likely to have shifted higher on the back of elevated supply side frictions and higher inflation expectations, we don't expect any forthcoming easing cycle to bring rates down significantly… we continue to think that an easing in monetary policy will still likely leave Bank Rate in modestly restrictive territory over the medium-term (3% to 3.5%)."

Goldman Sachs: No longer look for May hike; final 25bp in March

- "Recent prints suggest that the rebalancing in the labour market has begun, and inflation expectations—which we estimate was a significant driver of wage growth over the past year—have started to moderate."
- "Given the updated forward guidance today which suggests that the MPC is likely to hike only if the incoming data provides evidence of more persistent inflationary pressures, we therefore no longer expect them to hike in May, and revise down our terminal rate forecast to 4.25% (vs 4.5% previously)."

HSBC: Look for final 25bp in March and on hold through 2024 thereafter

- "With core inflation and labour market data unlikely to soften much over the coming weeks, we now expect a 25bp hike in March."
- "Our central case is then for Bank Rate to remain at 4.25% until at least the end of 2024."

ING: 25bp in March with risk of an additional 25bp in May

- "It's abundantly clear from both the press release and the new forecasts that the Bank is laying the groundwork for the end of the current tightening cycle."
- "a large contingent of the committee has shown a tendency to act by consensus and move together. We therefore shouldn't infer from today's vote that a decision to slow the pace of hikes next time would necessarily be that divisive."
- "We are sceptical that today's rate hike will be the last... Unlike the US, there are fewer signs that either wage growth or service sector inflation has peaked, and we're unlikely to see this story change sufficiently to stop the Bank hiking again in March, albeit this time by a more modest 25bp.
- "An additional move in May is possible if core inflation is still showing few signs of easing, though for now that's not our base case."
- "We think the BoE will be less rapid to turn to rate cuts than the Federal Reserve, given core inflation is likely to prove stickier. That suggests policy easing is unlikely for at least a year."

JP Morgan: Continue to expect 25bp hikes in March and May

- "Continue to expect a 25bp hike in March (and a final one in May, taking rates to 4.5%)."
- "The change in language was more dovish than we were expecting. But it is easy to overstate the significance of these changes when viewing them in isolation. It is true that the bar for another 50bp has been raised due to the word forceful being dropped… However, the data are king, and the MPC has effectively just shifted into a more data-dependent mode. Measures of inflation persistence have proven to be very persistent indeed, which ultimately prompted the outcome at this meeting. Unless this suddenly changes, then at least one more 25bp hike in March feels to us like a very reasonable expectation."

Morgan Stanley: Very close call but expect final 25bp hike in March

- "The March meeting is now clearly a decision between a hold or a 25bp move."
- "The BoE's own forecasts pose a high bar for an upside surprise – core services inflation is seen as rising to 7%Y in the coming months, and GDP growth is expected to contract relatively mildly over 1Q23. Our inflation forecasts are a touch weaker, and GDP growth expectations more bearish. On balance, however, we stick with a 25bp hike in March, and expect the guidance at that meeting to include a Bank of Canada-style reference around "holding the policy rate at its current level while it assesses the impact of the cumulative interest rate increases"."
- "We expect 150bp worth of cuts in 2024, with the first 25bp move delivered in February."

Nomura: Comfortable with call for final 25bp hike in March

- "We remain comfortable with our view that the Bank will raise rates by a further 25bp next month for a peak of 4.25%. After all, it seems unlikely that concerns about inflation persistence that were clearly evident at today's meeting will have been assuaged by then."
- "Previously, all that was required was the economy to evolve in line with the Bank's expectations and it would be sufficient to tighten further. Now, future tightening – not just forceful, but any tightening – is conditional upon there being more persistent price pressures."
- Nomura expects Bank Rate to then remain on hold until cuts in 2024 (25bp in each of May, June and August to 3.50%).

NWM: Final 25bp hike in March with "marginal" risk of further 25bp in May

- "The MPC majority's continued emphasis on 'large and asymmetric' (ie, upside) inflation risks persuades us that some modest further policy tightening is the most likely outcome."
- "The NWM forecast remains for a final 25bp hike to 4¼% in March 2023 (with the risks still tilted, albeit marginally, towards a further +25bp in May to 4½%).
- "We do not expect 'early' rate cuts (ie, in 2023) given the expected stickiness of core inflation but judge current policy settings to be restrictive (at least once full pass-through has occurred) and therefore expect policy rates to gravitate towards more neutral levels ~3½% over the course of 2024."
- NWM pencil in 25bp cuts in Q1-24, Q2-24 and Q3-24.

Pantheon: Keep Bank Rate at 4.00% through 2023

- "Without giving any guarantees, the MPC's language in the minutes, and its new forecasts, indicate that its working assumption is to keep Bank Rate at 4% over the coming months."
- There is an "absence of any clear guidance of further hikes in the minutes; there's no suggestion today of "ongoing" tightening, as the MPC warned in 2018 or the U.S. Fed stated."
- "One last 25bp hike in Bank Rate in the March meeting still can't be ruled out. But if, as we expect, signs of slowing price rises and accumulating labour market slack continue to emerge in line with its expectations, then the MPC looks set to keep Bank Rate at 4% in March, and throughout the rest of this year."
- Pantheon looks for 50bp of cuts in 2024 back to 3.50%.

Rabobank: Maintain 4.75% terminal rate outlook albeit with downside risks

- "We maintain our call for a 25bp move in March. We continue to see high risk for two more 25bp hikes this spring. Wage developments and services inflation will be closely watched."
- "Even if a deeper recession may damage many bottom lines, we continue to expect the MPC to vote for rate hikes to as high as 4.75% by June in order to restore balance in the economy. This is an out-of-consensus forecast and has of course some downside risks."

RBC: Now look for final 25bp hike in March

- "The message appeared to be that the MPC was close to its end point and would be moving more cautiously as it did so. The emphasis on the labour market backdrop and its potential to continue to surprise (as well as today's vote split) leads us think that there is scope for the MPC to deliver one further hike at the March meeting."
- "The Committee is, we think, done with large rate hikes and the debate at the next meeting will be between no change and 25bps."
- "We adjust our MPC call and now see the MPC delivering a further 25bps at its March 23rd meeting which will mark the end of the current hiking cycle."

Société Générale: Continue to expect final 50bp in March

- "We do not think that the MPC is yet ready to call a halt to rate increases but the end is close. We maintain our existing forecast of one more 50bp increase with a risk of 25bp. The deciding factor will be the state of the labour market in the run-up to the next meeting."

TD Securities: Final 25bp March hike

- "We see this as signs of an MPC that is increasingly unsure of the future, and knows that it is nearing its terminal rate. The MPC is clearly leaving options open at future meetings, but at the same time, we suspect that the intention of their new guidance is to guide markets to price in 0-25bps hikes at future MPC meetings, rather than 25-50bps hikes or symmetric risks around 0. It is likely that the majority of the MPC still believes one or more hikes are still likely at this point."
- "We continue to expect the MPC to hike Bank Rate by a final 25bps at the March meeting, reaching a terminal rate of 4.25%. Ahead of that meeting, it will receive two full months of top-tier data. Risks, however, are skewed toward one further 25bps hike in May, and market pricing of a 40% hike at that meeting seems fair at this juncture."

UBS: Final 25bp hike in March but look for cuts in Q4-23

- "We think that today's change in tone indicates that the BoE is clearly getting close to the end of the hiking cycle."
- "Given the Committee's assessment that the risk to the inflation outlook remains skewed "significantly to the upside", we continue to expect the BoE to deliver one more 25bp rate hike on 23 March, bringing Bank Rate to 4.25% and stop there. We view the risk to our call as balanced and acknowledge high data dependency."
- UBS continues to see 25bp cuts per meeting from Nov23 to 3.75% by Q4-23 and 2.50% by end-2024.

UniCredit: Could be on hold or 25bp hike in March

- "Whether the MPC votes for a 25bp or no hike at the next MPC meeting on 23 March is in the balance, but it is unlikely to hike beyond the first quarter because inflation is set to fall rapidly, and the labor market is weakening."
- "Previously we had expected the bank rate to peak at 4% at the March meeting, but today's larger than we expected hike has brought this forward."
- "Whether the MPC hikes by 25bp or not in March is a close call, it all depends on whether the majority on the MPC has seen enough evidence by then that services price inflation, wage growth and the labor market are cooling or soon will."
- "It seems unlikely that the MPC will hike beyond 1Q23, as economic activity is slowing, the labor market is turning, and most of the effects of higher interest rates have yet to materialize."
- "We expect rate cuts to start in 2Q24, but if the MPC were to push rates above 4% then these cuts would likely come sooner."

MNI POLICY TEAM INSIGHTS

MNI BOE WATCH: BOE Hikes By 50, "Watchful" On Inflation

By David Robinson, 2 February

The Bank of England hiked rates as expected by 50 basis points to 4.0% at its February meeting, though tempered its tightening with softer guidance as the Monetary Policy Committee removed an earlier warning from its statement that it would take “forceful” action if need be.

While the change in guidance and inflation forecasts in the quarterly Monetary Policy Report seemed to suggest that a cycle peak in rates could be near, Governor Andrew Bailey and deputies Ben Broadbent and Dave Ramsden told a press conference that inflation risks remain to the upside and that uncertainty was high. They made no attempt to talk down a market curve that points to rates peaking just over 4.5%.

The MPR forecast showed that even if Bank Rate is left on hold at 4.0% headline CPI inflation would fall below the 2.0% target, dropping on the modal, or most likely, path from 9.72% this quarter to 0.83% in Q1 2025 and to just 0.19% in Q1 2025.

But Broadbent rejected the interpretation that this meant rates had peaked, saying that they were “still very watchful … (with) risks very clearly to the upside."

The mean, or simple average, inflation forecast was close to the 2.0% target on market rates in two years' time, at 1.75%.

The MPC’s relative silence on the market curve marked a return to usual policy after a surge in expectations for the rate peak to 5.25% in November prompted Bailey to suggest that the real figure was likely to be about 4%.Declining to comment on market pricing, Ramsden said “normal service has been resumed.”

POTENTIAL GROWTH

Bank economists also revised down their estimate of the UK’s potential growth from the previous 1.5%, to just under 1% initially and then to 0.7% in the final and third year of the forecast horizon. (See: MNI POLICY: BOE Eyes UK Trend Growth As Labour Force Tightens).

The key driver behind this move was weaker potential growth in the labour supply, which was attributed to a mix of an ageing population and declining participation rates, with rises in long-term sickness and early retirement. Many who had left the workforce were unlikely to return, the Bank concluded in a labour market stocktake.

The UK has been hit by a succession of shocks, Ramsden said, stressing that their effect on potential supply was uncertain and could be greater or lesser than the Bank has estimated. The baseline assumption is that even 1% yearly growth would be inflationary, however, and Broadbent also noted that a higher energy prices path than currently assumed could add one percentage point to inflation at the end of the forecast period.

The minutes of the MPC's February meeting revealed a continuing split within the MPC, with Swati Dhingra and Silvana Tenreyro both voting for unchanged policy. The majority though considered that higher rates were justified by the tight labour market and elevated inflation expectations, and put more weight on recent labour and prices data rather than on the Bank's medium-term growth and inflation projections.

The Bank also raised its growth forecasts to show a shallower recession, with the economy shown contracting 0.5% in 2023, up from an earlier estimate of -1.5%, and by 0.25% in 2024.
