BoE Preview: March 2023

Statement/Minutes release: 12:00GMT, Thursday 23 March
Summary/Minutes: https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2023/march-2023
There is no Monetary Policy Report on press conference at this meeting.

Contents

MNI View: February inflation to determine whether to hike or hold

Tim Davis, 21 March

We noted following the February MPC meeting that the MPC would be focused on three things going forward: service inflation, inflation expectations and wage growth. And we noted that at least in the period ahead of the March meeting there was a good chance these data could come in ahead of expectations so market pricing at the time for a final 25bp hike in March looked appropriate.

Since then, service inflation has surprised to the downside (but we still have not seen the February data yet, although MPC members would have had advance sight of it on Friday morning), inflation expectations have fallen further and wage growth has been broadly in line with expectations (if not a little lower). We think the MPC is less focused on activity data, but the PMIs have surprised to the upside (noted by Chief Economist Huw Pill) while hard activity data has been marginally better-than-expected.

The MNI Markets team therefore thinks that even in the absence of concerns over the financial sector following the issues surrounding SVB, First Republic and Credit Suisse, that it would be questionable whether the data had been strong enough for a majority of the MPC to vote for a hike (see our Policy team's coverage on page 13). And with even Huw Pill (who is one of the swing voters in our opinion, but with a leaning to the hawkish side) mentioning the possibility of overtightening in his recent speech, we think that raising rates for risk management purposes might not be favoured by the majority of the MPC. Instead, we think that it remains important to look at the individual MPC members and how they will vote.

3 members likely to vote for unchanged rates

On the dovish side we have Dhingra and Tenreyro and we think there is a good chance that Deputy Governor Cunliffe joins these two external MPC members in voting for unchanged rates at this week's meeting. We had thought ahead of the February meeting that there was a chance we could see Cunliffe dovishly dissent but the fact that he is the Deputy Governor for Financial Stability probably increases the chances he will vote for unchanged rates as he may place more emphasis on the risks associated with the banking sector. Tenreyro may vote for a cut at some point, but we think this would be largely symbolic and that she would be so far away from the centre of the MPC (and also leaving after the June MPC meeting) that the market would not pay too much attention.

3 members likely to vote for a 25bp hike

On the hawkish side we are on the fence as to whether Mann will vote for 25bp or 50bp at this meeting. But like with Tenreyro, we don’t think it will matter too much as it’s not really going to change the overall direction of the MPC. We also think that Haskel will continue to vote for an increase to the Bank Rate and pencil him in to vote for a 25bp hike. He has been very focused on the supply side of the labour market and we don’t think enough has changed since the February meeting for him to want to switch away from voting for further hikes here. Ramsden is the other MPC member to have previously dissented on the hawkish side. We view him as less likely to vote for a hike than Haskel but still pencil him in to join the hawkish members in looking for a 25bp hike. This is by no means a certainty, however. He is the Deputy Governor for Markets and Banking and is therefore likely to be pretty focused on the recent events in the banking sector.

3 members we think will be influenced by February inflation data

That leaves the three most centrist members in our view – Chief Economist Pill, Governor Bailey and Deputy Governor for Monetary Policy Broadbent. All three have always voted together and none have dissented from the majority view. We think that Pill is the most hawkish of the three – with his speech pointing to data coming in a bit better than expected, whereas Bailey noted that data had come in largely in line with expectations in his most recent comments. Broadbent always gives away very little, but we expect his views are more aligned with Bailey. We do think there is a possibility here that we therefore do see a split of these members, with Pill potentially voting for a 25bp hike without Bailey or Broadbent. However, we think that on balance there is a good chance that all three of these members will have been swayed by the outcome of the inflation data. Not necessarily the headline number, but maybe one of the more durable measures like services inflation. If services inflation was to show another notable deceleration in the February data, we would expect to see rates left on hold this week. However, if the January slowdown in services inflation was to be reversed, the MNI Markets team thinks these members would vote for a 25bp hike. This will tip the balance of the MPC into either a hold or a hike.

Central Bank Watch - Bank of England

January 31, 2023

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	10.5	10.1	↑	9.4	↑					1.26
Core CPI	% y/y	6.3	6.5	↓	5.8	↑					0.29
PPI Output	% y/y	-1.3	-0.9	↓	-0.7	↓					-1.00
Inflation Swap 5y/5y	%	3.59	3.52	↑	3.67	↓					-0.37
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	46.7	46.2	↑	52.1	↓					-1.45
PMI Services	Index	48.0	48.8	↓	52.6	↓					-1.14
Manufacturing Production	% y/y	-5.9	-7.2	↑	-4.8	↓					-0.06
Index of Services	% 3m/3m	-0.1	0.1	↓	0.3	↓					-1.34
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	0.49	0.73	↓	1.70	↓					-0.23
Mortgage Approvals	K	35.60	66.77	↓	63.50	↓					-1.89
Lending Sec on Dwellings	GBP Bn	3.20	5.76	↓	5.03	↓					-1.46
Nationwide House Prices	% y/y	2.8	9.5	↓	10.7	↓					-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	-5.8	-6.7	↑	-6.3	↑					-0.70
Consumer Confidence	Index	-45.0	-47.0	↑	-41.0	↓					-0.31
Employment Chge 3m/3m	K	27.0	-109.0	↑	297.0	↓					-0.33
Ave Weekly Earnings 3m	% y/y	6.4	6.1	↑	6.4	→					0.58
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	4236	3876	↑	4107	↑					1.30
10-Year Gilt Yield	%	3.32	3.52	↓	1.86	↑					0.32
Gilt Curve (2s-10s)	bps	-13.9	18.3	↓	15.4	↓					-0.76
GBP TWI	Index	78.52	78.14	↑	79.66	↓					0.51

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 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

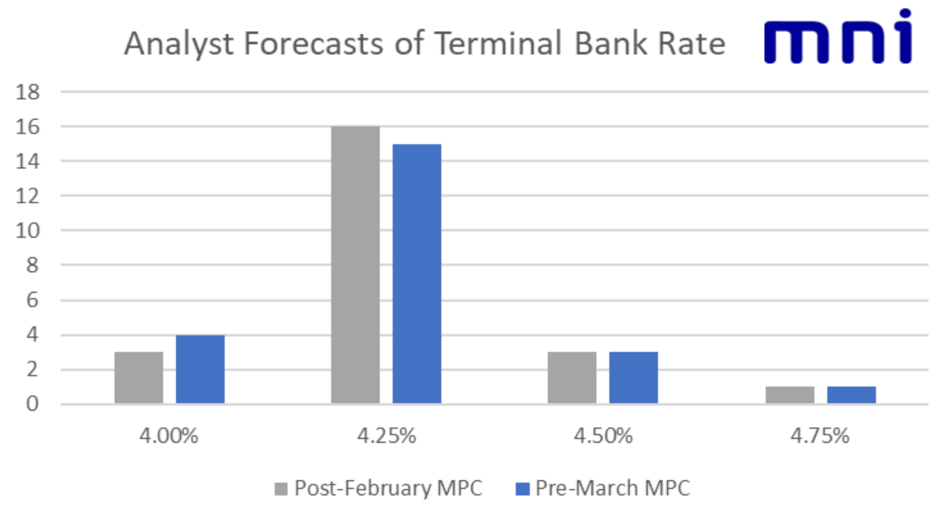
- No need to scroll through 30 newswire headlines.
- All of the tradable info you need delivered concisely straight to your bullet feed or the interactive chat.
- Gives you the confidence that you can quickly trade at the announcement time.

March Questions

1. Was the Bank Rate raised, and if so by how much?
2. Number of members voting for a rate cut?
3. Number of members voting for unchanged rate?
4. Number of members voting for a 25bp hike?
5. Number of members voting for a 50bp or larger hike?
   NB: On questions 2-5 we will name the dissenters (and the magnitude of dissent)
6. Did the MPC again say “if there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required”?
7. Did the MPC say "Any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent"?
8. Did the MPC say the bank rate is now likely close to / at its peak?

Summary of Analyst Views

- 6/23 analyst previews that we have read look for unchanged rates at the March MPC meeting. The remaining analysts all look for a 25bp hike this week. Most analysts think this week's decision is very close-to-call and don't express high conviction in their calls.
- Of the 6 analysts looking for rates on hold:
    - Berenberg, Pantheon, Morgan Stanley and UniCredit all have a base case that we have already reached the terminal rate of 4.00%.
    - Barclays and Citi both look for a pause with a 25bp May hike to a terminal 4.25% rate.
- Of the analysts looking for a 25bp hike:
    - Rabobank expects further 25bp hikes in both May and June to a terminal 4.75% (albeit with low conviction).
    - Credit Suisse, JP Morgan and Société Générale look for a further 25bp hike to a terminal 4.50% rate.
    - The other 13 analysts (57% of the previews we have read) look for the March 25bp hike to be the last, with a terminal rate of 4.25%.
- In terms of the vote breakdown:
    - There is almost unanimous expectation that both Dhingra and Tenreyro will vote for no change to rates (although some see a risk that Tenreyro votes for a 25bp cut).
    - Analysts are fairly split about whether Cunliffe votes for rates on hold or a 25bp hike at this meeting.
    - Mann is generally expected to vote for 25bp – although some analysts expect she will vote for 50bp.
    - Of the analysts who expect rates to be unchanged, the vote breakdown is expected to see 2-3 votes for a 25bp hike.
- Berenberg, Citi and UBS expect cuts to begin in Q4-23 – all other analysts forecast no cuts before 2024, at the earliest.



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

Institution	Post-February meeting	Pre-March meeting
Rabobank	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.	Continue to expect 25bp hike this week as do not believe the BOE's decision-making has changed in response to financial instability.
JP Morgan	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%.	Continue to expect 25bp hike this week. If on hold, financial conditions stabilise and data strong, chance of 50bp in May22. But could also be end of tigthening cycle.
Credit Suisse	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.	Base case 25bp hike in Mar23 with 2 dissents for unch and 1 for 50bp hike. Continue to expect 4.50% terminal rate with no cuts in 2023.
Société Générale	Continue to expect final 50bp hike in Mar23 to 4.50% with a risk of a 25bp hike.	**Expect 25bp Mar23 hike with 7-2 vote (dissents for unch). Then look for final 25bp hike in May23 to a terminal rate of 4.50%. Look for cuts to 3.00% in 2024.**
HSBC	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.	Final 25bp hike in Mar23 with 2 dissents for unch and 1 for 50bp. On hold at 4.25% through end-2024 thereafter.
Danske	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.	Expect final 25bp hike in Mar23 to 4.25% with BOE "set to signal a pause in the hiking cycle." Do not expect any cuts before 2024.
ING	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.	Probably hike 25bp in Mar23 but "contingent on what happens in financial markets.” Five centrist members to vote together and MPC should be comfortable pausing by May23.
RBC	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.	Expect final 25bp hike in Mar23 with 6-3 vote (3 votes for unch). Decision dependant upon financial conditions continuing to stabilise.
Goldman Sachs	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%.	Expect final 25bp hiketo 4.25% terminal rate with 6-3 vote (3 dissenters for no change). Mar23 meeting remains a very close call.
CIBC	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.	Expect final 25bp hike in Mar23 with BOE to signal a conditional pause.
Deutsche	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%.	Expect 25bp hike in Mar23 with 6-3 vote (3 dissents for unch) but call is "finely balanced". Entering bottom end of 4.25-4.75% terminal rate range; bar for further hikes will be high.
TD Securities	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).	Expect a final 25bp hike with 3 dissents for unch rates and 1 for 50bp. Expect bar to further hikes to be raised further but BOE not to state terminal rate has been reached.
Bank of America	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.	Base case final 25bp hike in Mar23 "but hold equally likely." Either way see no further hikes past Mar23. Continue to expect 2x25bp cuts in Feb24 and Aug24.
NatWest Markets	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%.	**Expect final 25bp hike in Mar23 as "conventional macroeconomic considerations" prevail. Push back cuts in 2024 but still see 3x25bp cuts to 3.50% (in Q2/3/4).**
Nomura	"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%.	Continue to expect final 25bp hike in March. After peaking at 4.25%, expect on hold for about a year before 3x25bp cuts in May24, Jun24 and Aug24 to 3.50%.
Daiwa	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.	Continue to expect final 25bp hike in March. Forecast 100bp cuts from mid-2024 to 3.25% by end-2024, although note the massive uncertainty around this forecast.
UBS	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.	Final 25bp hike in Mar23 with Mann voting for 50bp and 2 votes for unch. Pause thereafter but with upside risks. Cuts from Nov23 to 3.75% by Q4-23 and 2.50% by end-2024
Barclays	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%.	**Rates on hold with 3 dissents for a 25bp hike. Stabilisation in market conditions could tilt balance back to 25bp hike. Final 25bp hike in May then 2x25bp cuts in Q3-24 and Q4-24.**
Citi	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).	**Hawkish hold more likely than hike with 3 hawkish dissenters. Expect final 25bp hike in May and for cuts to begin in November.**
Pantheon	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%.	Continue to expect BOE to remain on hold through 2023 and expect 50bp of cuts in 2024 back to 3.50%.
UniCredit	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%.	Expect unchanged rates in Mar23 with 2-3 members voting for a 25bp hike. Then on hold at 4.00% for another year before cuts of 25bp/quarter from Q2-24 to 3.25% by end-2024.
Morgan Stanley	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.	**Base case for on hold in Mar23 with 2 dissenters voting for 25bp hike. Still see 45% chance of 25bp Mar23 hike. On hold from May with cuts starting in Feb24 to 2.75% by end-2024.**
Berenberg	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%.	**Expect banking sector troubles to keep Bank Rate on hold in Mar23. Look for 2x25bp cuts in Q4-23 to 3.50% by end-2023 and 2x25bp cuts in H1-24 to 3.00%.**

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

- "Its a close call whether the BoE hikes next week. We expect final 25bp rate hike to 4.25% terminal, but hold equally likely."
- "Why do we stick with 25bp? First, inflation is 10% currently and wage growth far too high to return inflation durably to target... Second, based on our bank's analysts' view of recent events we assume no major economic contagion to the UK."
- "The mixed recent data flow means the BoE's guidance would have been consistent with pausing rate hikes at next week's policy meeting in our view. Recent events add more reasons to pause... Inflation data next week could be key. Either way we think the BoE will not hike further after next week (so terminal of either 4.25% or 4.0%)."
- "Given the underlying inflation problem we do not expect BoE rate cuts until 2024. We assume two cuts in 2024, in February and August."

Barclays

- "With data largely mixed relative to BOE expectations, we think ongoing market turmoil tilts the balance for the MPC to keep the Bank Rate at 4% in March (vs. our previous call for a 25bp hike)."
- "Pencil in three dissenters opting for a 25bp hike, likely external members C. Mann and J. Haskel, and internal member D. Ramsden. However, should financial stability risks become overwhelming by the time of the meeting, we think the decision to hold would be unanimous."
- "We stress that this is a very close call. A sustained stabilisation in market conditions next week could tilt the balance towards a 25bp hike."
- "Without the recent market turmoil, we think significant upside risks to inflation would have called for a final 25bp hike, largely for risk-management considerations. However, that call presupposed that the transmission of monetary policy tightening across major jurisdictions remained orderly, which no longer seems to be the case, with increasing risks of a material tightening in financial conditions via the banking channel."
- "We think the Bank will keep the option to hike further should markets stabilise, maintaining a flexible, data-dependent approach."
- "A decision to hold [this] week could be communicated as a smooth transition to a more flexible strategy going forward, where the MPC calibrates, in principle, its policy stance following a Monetary Policy Report cycle (Feb/May/Aug/Nov)."
- Barclays looks for a final 25bp hike in May and then look for 25bp cuts in each of Q3-24 and Q4-24.

Berenberg

- “In response to banking sector troubles, we expect the BoE to remain on hold at 4.0% in early 2023.
- “The BoE will then likely cut the bank rate by 25bp two times each in late 2023 as well as early 2024, before keeping it on hold at 3% through the remainder of 2024.”
- “Judging by recent events, the risk to our call for a combined 100bp in bank-rate cuts during Q4 2023 and H1 2024 is slightly tilted towards sooner and larger cuts.”

CIBC

- Expect final 25bp hike.
- “We anticipate that this will be the resting spot for now as the BoE flags that it is pausing here. Given the degree of uncertainty of incoming data, this pause is likely to be conditional.”

Citi

- “Think a hawkish hold is now more likely than a further hike. The MPC are likely signal the hiking cycle is not yet done.”
- “We expect three hawkish dissenters, with guidance left open for a hike at a later date.”
- “First, given the data outturns since February, a pause would be more consistent with the MPC’s immediate guidance… Second, we think recent financial disruption will inject an additional dovish impetus into MPC discussion… Third, and last, is a question of policy strategy – particularly as the MPC approaches terminal rate... The core aim we think will be to allow a pause in rate hikes, without inviting inversion.”
- “We think a majority no longer believe that further ‘risk management’ hikes are prudent ex-ante… the burden of proof has therefore shifted. And with sufficient ‘insurance’ now secured, the ‘time-option’ value of waiting is plausibly no longer negative.”
- “While a shift in policy approach was clear, the durability of such a move remains subject to doubt… it seems the MPC isn’t targeting the mean, but a point above… it does point to a considerable degree of subjectivity with respect to how policy is being calibrated.”
- “On balance we think one further hike remains more likely than not, in May. From there we expect the MPC on hold until November, where we continue to expect a cut.”

Credit Suisse

- Base case for 25bp hike (but acknowledge it’s a close call). 6 votes in favour of 25bp with 2 dissents for on hold and one for 50bp hike.
- “Risks of a pause have increased, given softening wage pressures, market volatility, financial stability and overtightening concerns due to US bank failures, and the BoE’s dovish bias.”
- If the BOE pauses “we think that is unlikely to signal the end of the hiking cycle, with the door left open for further hikes if the data warrant it.”
- Continue to expect two 25bp hikes this year to a terminal 4.50% with no cuts in 2023.

Daiwa

- "We expect the MPC merely to slow the pace of rate increases on Thursday to 25bps, taking Bank Rate to 4.25%, where we still think the current tightening cycle will conclude."
- "We think the data would justify a slowing in the pace of hikes, or even no hike at all this month."
- Continue to forecast 100bp cuts from mid-2024 to 3.25% by end-2024, although note the massive uncertainty around this forecast.

Danske Bank

- Expect 25bp hike and "expect this to mark the peak in the Bank Rate of 4.25% as the BoE is set to signal a pause in the hiking cycle."
- "While the latest UK economic data releases, in our view, still support a 25bp hike on Thursday, we acknowledge that the probability of the BoE keeping the policy rate unchanged has risen considerably amid rising systemic risk fears."
- "Do not expect rate cuts to be delivered by BoE before 2024."

Deutsche Bank

- Expect 25bp hike to 4.25% but the "call remains finely balanced, however, particularly with global uncertainty heightened and financial stability risks elevated."
- Expect a 6-3 vote with Cunliffe joining Dhingra and Tenreyro in voting for unchanged rates.
- "We think that the bar for a pause in March is a lot lower, relative to the Fed or ECB, given the BoE's more dovish forward guidance in February."
- Three main factors behind base case of further 25bp hike: "Growth resilience, including new fiscal firepower, adds to medium-term inflationary pressures… The labour market is still very tight… Price pressures are slowing – but are not yet consistent with the Bank's mandate."
- "This will likely be the BoE's final rate hike with Bank Rate now entering the very bottom end of our terminal rate range (4.25% to 4.75%)."
- "The bar for further hikes will be high, we think. Given the dovish reaction function from the MPC, it's likely that the Bank pauses on rate hikes, allowing for the slow monetary policy transmission to feed through into the real economy. Equally, with financial stability risks becoming more apparent, it's likely that the MPC treads cautiously on how much further it raises Bank Rate."

Goldman Sachs

- "A 25bp Bank Rate hike at [this] week's meeting remains the most likely outcome, we view it as a close call."
- "Our baseline is for another split vote such as three votes for unchanged (Dhingra, Tenreyro and Cunliffe) and six votes for 25bp."
- "We expect the MPC to retain the same forward guidance as in February, stressing data dependence, but add that it is monitoring financial stability indicators closely and stands ready to act to ensure financial stability."
- "Given the additional growth drag from bank lending and the new uncertainties around the outlook, we no longer expect the MPC to hike in May and see the terminal rate at 4.25%... While persistent market volatility could easily convince the MPC to stop tightening earlier, a quick resolution of the banking stresses and strong underlying inflation data could still require more tightening than we now expect."

HSBC

- Expect 25bp hike with Dhingra and Tenreyro voting for unchanged rates and Mann voting for 50bp.
- Then expect Bank Rate to be held at 4.25% through end-2024.

ING

- "The Bank of England will probably opt for one final 25bp hike on Thursday if it can, though that's undoubtedly contingent on what happens in financial markets."
- "Expect the 'centrist' five to six members (including Governor Andrew Bailey) to vote largely together."
- "There are encouraging signs that inflation is genuinely starting to ease. Not only are improved supply chains and lower consumer demand keeping a lid on goods price inflation, but lower gas prices should help take the pressure off the service sector, too. Until the recent turmoil in financial markets, we weren't convinced all of this would be enough to stop the Bank from implementing one final 25bp hike, but assuming the trends continue, the committee should be eminently comfortable with pausing by the May meeting."

JP Morgan

- "Still expect the BoE to hike 25bps [this] week in what now looks to be a much closer call."
- "The MPC is likely to see some option value in waiting to assess how market conditions evolve but despite mixed data on wages and the CPI we think better growth and hiring indicators will be enough to prompt the MPC to act on the upside risk it sees around its inflation forecast."
- February CPI "is the wildcard in the data, and could yet sway the MPC towards inaction."
- "If the BoE sees a high option value in waiting [this] week, then it could defer a rate hike until May. That would increase the chance of a 50bp hike if market conditions stabilise and the data continue to create enough pressure. But it could also see the end of the tightening cycle if there is a material downgrade to growth expectations related to market events."

Morgan Stanley

- “In light of the recent market volatility, we now expect a hold from the BoE.”
- “The budget was largely supply side-focused, private sector pay cooled a touch more than we had expected, and the global backdrop now includes elevated uncertainty and financial stability concerns. This is enough to tip a decision, which we saw as very close to begin with, towards a hold, as opposed to a 25bp hike.”
- Expect a 7-2 vote split with Mann and Haskel voting for a 25bp hike.
- “Expect a variant of the following guidance in the minutes: "The MPC would adjust Bank Rate as necessary to return inflation to the 2% target sustainably in the medium term, in line with its remit. The MPC will have the opportunity to assess the economic outlook more fully in the context of its May Monetary Policy Report and accompanying economic projections."”
- “See a 45% subjective probability of a 25bp hike… a final 25bp move, accompanied by more forceful wording around a future pause, remains a highly likely outcome for next week.”
- “We see the BoE on hold in May and beyond, and continue to expect cuts next year.”
- “We think that cuts to 2.75% by end-2024 are very much possible, starting more gradually in February 2024, and accelerating through the year. A faster start than we expect from the Fed could bring this forward.”

NAB

- “The MPC will take a pass on the 22nd March and claim to want to revisit the question of whether further tightening is needed at its 11th May meeting; when it will have a new set of economic forecasts. Perhaps by then the broader market nerves over the financial system will have calmed to allow the BoE and other central banks an opportunity to focus more closely on domestic policy. Perhaps that might take longer and by then won’t be necessary anyway.”

NatWest Markets

- Continue to expect 25bp hike.
- “Although financial sector concerns could conceivably persuade the MPC to leave policy settings on hold in March (delaying a final hike until May), we expect more conventional macroeconomic considerations to prevail.”
- “Expect a 7-2 vote (Tenreyro & Dhingra dissenting in favour of no change), though a more dovish 1-5-2-1 splintering is perfectly possible (some combination of Mann voting for +50bp, Cunliffe voting for no change, Tenreyo voting for a 25bp cut).”
- “Our central case is for modest rate cuts, beginning in H1 2024 to more neutral levels ~3½%, as inflation heads towards (and below) target. Equally, we acknowledge the high degree of uncertainty around the extent to which wage pressure moderate over the course of this year and next and there is a plausible scenario whereby some further policy tightening might be required in early 2024.”
- NatWest Markets has pushed back its base case expectations of cuts by a quarter and now looks for 25bp cuts in each of Q2-24, Q3-24 and Q4-24 to 3.50%.

Nomura

- Continue to expect 25bp March hike.
- “A strong labour market, potentially sticky core inflation in the near-term, a loosening Budget this week, some stronger data outcomes since the last MPC meeting, and the fact that 4.25% doesn’t look like a particularly high end-point for rates relative to past cycles (i.e. those before the global financial crisis), all point to the need for a hike.”
- “Banking sector uncertainties, slowing inflation and wage momentum, low inflation expectation… weak levels of GDP, and lags from past tightening… all suggest that we are rapidly approaching the end of the cycle.”
- “After peaking at 4.25% we see the Bank keeping rates on hold for around a year before cutting by 75bp around the middle of 2024 (leading rates back to 3.50%).” Nomura pencils in 25bp cuts in May 2024, June 2024 and August 2024.

Pantheon

- “Continue to expect BOE to remain on hold through 2023 and expect 50bo of cuts in 2024 back to 3.50%.”

Rabobank

- Continue to expect 25bp March hike.
- “Although global financial instability risks have widened the range of potential outcomes, we do not believe the MPC’s decision-making has changed in response.”
- “With external members Tenreyro and Dhingra surely not voting for an increase, five out of seven remaining policy makers would have to vote for such a hike. Indeed, it wouldn’t even come as a surprise if we’d see a three-waysplit, with Tenreyro and/or Dhingra even voting for a cut.”

RBC

- Following the ECB 50bp hike “we reiterate our call for the MPC to deliver a 25bps rate hike next week with a 6-3 vote in favour, pausing thereafter.”
- “The decision at the meeting will be touch and go, however, and dependent on financial markets continuing to stabilise between now and [the] policy meeting.”
- “We don’t think that the MPC would be minded to give an explicit message about pausing. More likely in our view is that they would look to retain optionality by continuing to emphasise that the near- term outlook for policy is data dependent and not pre-determined in either direction.”
- “For this meeting we think it more likely that Tenreyro votes to stay on hold along with Dhingra. However, we also look for Jon Cunliffe, the other dove on the MPC (who has responsibility for financial stability) to join them in voting to hold Bank Rate at 4%... We look therefore for a 6-3 vote to raise Bank Rate by 25bps with three votes for no change.”

Société Générale

- "We think the majority will judge that another hike will be necessary at next week's meeting but of 25bp rather than the previous 50bp. Members are likely to judge that the prompt and effective action already taken by the Bank and the Treasury to address the concerns about SVB's UK subsidiary mean that it can put its financial stability concerns to one side."
- Look for a 7-2 vote split with Dhingra and Tenreyro both voting for unchanged rates.
- "In the absence of a further flare-up of liquidity concerns, we expect this next move of 25bp to be at the 23 March meeting, probably followed by a final 25bp in May.
- Following the February MPC meeting SocGen had been looking for a final 50bp hike in March.

TD Securities

- Expect a final 25bp hike. "The decision, however, is finely balanced."
- Look for a 3-way split vote with Dhingra, Tenreyro and Cunliffe voting for unchanged rates and Mann voting for a 50bp hike.
- "There's been little push-back from MPC members on (pre-banking turmoil) market pricing, suggesting that they are comfortable with a 25bps hike at this meeting."
- "Beyond March, hikes will be less certain, and we expect a vague signal at this meeting that the MPC is unlikely to hike again unless wage and inflation data proves more persistent than they expect. In other words, the bar to another hike will be raised."
- "We do not expect the MPC to formally announce that it has reached terminal, leaving the door open to further hikes."
- "It's at the May policy meeting (where we expect a pause) that they can refine their message about future policy as they pause rate hikes for the first time since 2021."

UBS

- Expect 25bp hike with Mann voting for 50bp while Dhingra and Tenreyro vote for unchanged rates.
- "Our baseline assumes that the 25bp hike on 23 March will be the last of the cycle amid the indications of easing in labour market tightness, declining wage and price expectations, and falling headline inflation. However, the risk to our call appears skewed to the upside (i.e. more hikes). We expect the MPC's policy rate decision in May and beyond to be highly data dependent."

UniCredit

- Expect Bank Rate to be kept on hold at March meeting "with two or three members preferring a 25bp hike."
- "Governor Andrew Bailey said the MPC no longer presumed it would increase interest rates further, and that recent data had evolved "much as we expected it to". Since then, financial conditions have tightened. In this environment, MPC guidance on rates is likely to be broadly neutral and highly data dependent, with two-sided risks to the inflation outlook."
- Continue to look for 25bps cuts in each of Q2/Q3/Q4-2024.

MNI POLICY TEAM INSIGHTS

BOE On Course For Hold Unless Data Surprises

By David Robinson, 9 March

Assuming the UK economy continues to perform “much as expected,” the Bank of England is likely to leave policy on hold at its March meeting as it awaits its May forecast round in order to make a more comprehensive assessment of developments and the likely impact of tightening.

With the Monetary Policy Committee’s external members already having made their positions clear, and no public events currently scheduled for the five insiders ahead of the March 23 decision, the key steer for the meeting is a March 1 speech by Governor Andrew Bailey in which he said that while nothing has been decided the MPC no longer presumes further hikes will be required. (See MNI INTERVIEW: BOE Should Set Out Views On Policy Transmission)

Nonetheless, while Bailey said “the economy is evolving much as we expected it to," he stressed there were more data to come and that he would caution against assuming that hiking was over. Key Indicators ahead of the meeting include GDP on Friday, labour market data next Tuesday and CPI on March 22, the day of the policy vote, though the MPC typically downplays the importance of any single such metric in making its decisions. So far, surveys have suggested little danger of upside surprises from the labour report, with REC data showing wages flat at elevated levels.

MEDIUM-TERM UNDERSHOOT FOR CPI

In its February forecast round the MPC projected CPI inflation undershooting the 2% target by some distance in the medium term, falling on the market interest rate projection to just 1.0% in two years' time and to 0.4% at the end of the three-year forecast. A similar undershoot was shown even if Bank Rate were to be left on hold.

The forecasts came with a large upside skew to reflect the risk of more persistent inflation and one reading was that the data would need to surprise to the upside to justify further tightening.

While volatile market curves have frequently priced at least two more increases in Bank Rate from the current 4.0%, the Bank’s own survey of market participants, which it uses to help filter out market noise and which garners anonymous responses from, among others, analysts who do not make their work public, including those at large hedge funds, has consistently pointed to lower expectations.

The February MaPS survey showed the 50th percentile saw 4.25% as peak and the 75th percentile saw it as 4.5%. With just one further 25bp hike expected, or two at most by a substantial majority, whether the MPC delivers a hike in March or waits and delivers it alongside its next forecast round in May, market participants are unlikely to be surprised.

The participants have attributed around a quarter of the gap between their views and sterling market interest rate curves to liquidity and other technical factors, while linkages with dollar curves are complex. The Bank has not pushed back against market expectations, which may in part reflect the view they are not that far out of line, although the next MaPS survey will only be published after the March decision.

MNI INTERVIEW: No Fast BOE Cuts If Inflation Slides-OBR's Miles

By David Robinson, 16 March

The Bank of England is likely to keep rates near their peak for some time and not respond with rapid rate large cuts if inflation undershoots the 2% target for a lengthy period as assumed by the official fiscal forecaster in its March Budget projections, top Office for Budget Responsibility official and former BOE Monetary Policy Committee member David Miles told MNI.

The OBR's projections showed CPI inflation dropping from 6.3% in 2023 to 0.9% in 2024, and then to just 0.1% in 2025 and 0.5% in 2026 based on a market rate path for Bank Rate to rise from its current 4.0% to a short-lived peak of 4.3% in Q3 2023 followed by a gradual drift down to around 3.0% by around the end of the forecast horizon in 2028. Miles rejected the interpretation that the prolonged inflation undershoot foreseen means the market curve is in the wrong place.

"You could look at the forecast of inflation which for a fairly long period, a couple of years, undershoots the Bank of England target and you might say 'well, wouldn't the Bank of England be cutting rates aggressively then?’" he said.

"I think though you can see a situation where having dramatically overshot the inflation rate for much of last year and indeed the first part of this year the Bank of England would be willing to look through a period of a much smaller undershoot relative to the 2% target without thinking that the appropriate policy is to slash interest rates," Miles added.

SYMMETRICAL RESPONSE

The BOE did not respond with very aggressive hikes to the rise in inflation to close to 11% and it is likely to act symmetrically. (See MNI POLICY: BOE On Course For Hold Unless Data Surprises)

"Missing the target in the other direction, although by rather a lot less, I doubt would make the Bank think the right thing to do would be to slash rates back to close to zero percent to get it back very quickly" he said,

The OBR came up with a rosier picture on growth than the vast majority of independent forecasters, with its real GDP projection of -0.2% for 2023 0.3 percentage point above the BOE's and its 2024 forecast of 1.8% 0.9 point above the independent average based on the Treasury's survey compilation.

Miles said the OBR should not worry about being an outlier, even though fiscal policy is set on its projections.

"For the last year or so we have been pretty consistently on the optimistic side of the consensus and that is still true. In some sense it does leave one exposed because if it turns out the middle of the consensus is how things play out people will say 'well, what were they doing'?

"I think the risk averse strategy of saying 'let's stick with the pack and if we are wrong we are all wrong together and we can say well, everybody else was looking at it this way as well is a bit intellectually feeble," Miles said.

SMALL MARGIN FOR ERROR ON DEBT RULE

Miles said a key chart in the OBR's fiscal projections published following the Budget on Wednesday showed just how small a margin for error the Treasury has left to hit the government's target of achieving a decline in debt-to-GDP in five years, with the projections indicating a buffer of just GBP6.5 billion.

"The probability given past volatility and various other things of hitting the target on the debt-to-GDP ratio is a little bit better than 50% ... In an economy that is three trillion and in an economy with a stock of debt of about three trillion, headroom of GBP6.5 billion is pretty small," he said.