

Bank of England likely to keep rates on hold as markets ramp up hike bets

Financial markets are once again pricing upwards of two Bank of England rate hikes this year. Governor Andrew Bailey won't like that, but with the ongoing crisis in the Middle East, we doubt the Bank will meaningfully push back against market expectations at its 30 April meeting



Bank of England Governor Andrew Bailey speaking earlier this month at the 2026 IMF and World Bank Group meetings

Markets are pricing two rate hikes this year

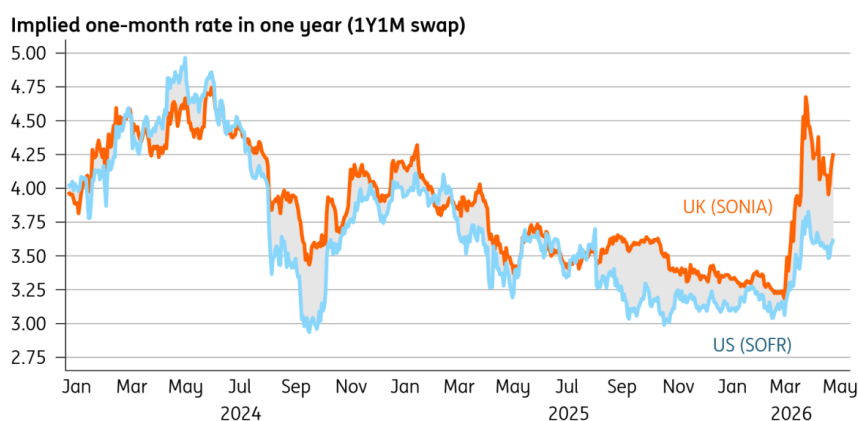
The Bank of England is poised to keep rates on hold at its April meeting. But will it push back against market expectations of two rate hikes by year-end?

The Bank was evidently caught off guard by the reaction to its March decision, which saw even the most dovish officials appear open-minded about hiking rates. Governor Andrew Bailey told *Reuters* in the days after that investors were [“getting ahead of themselves”](#).

We doubt his views have changed since then, but we suspect the Bank will be reluctant to push

back too hard on market expectations at Thursday's meeting. For one thing, market pricing is not quite as extreme as it was towards the end of March. That's mostly because oil prices have come lower; the correlation between energy costs and short-dated swap rates has been fairly tight since the crisis began.

UK rate expectations are significantly higher than pre-war



Source: Macrobond, ING

More importantly, though, nobody, least of all the Bank, knows how the crisis will develop between now and June. Energy prices are unpredictable, but the BoE is also acutely aware that the longer the Strait of Hormuz disruption endures, the more likely the unforeseen knock-on effects on supply chains.

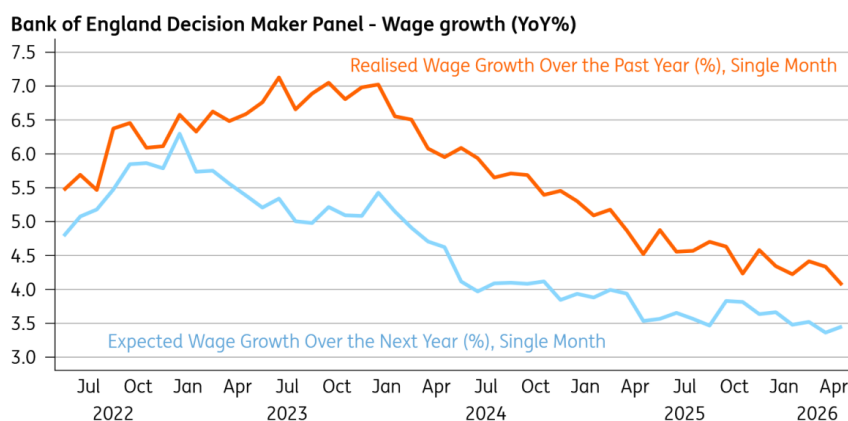
That said, the fact that natural gas prices have stayed remarkably contained – and have even flirted with pre-war levels in recent days – is a significant source of near-term comfort. Natural gas – and the role it plays in setting electricity prices and heating bills – is in many ways a bigger vulnerability for the UK than oil.

The other challenge the Bank has is that the data received since the March meeting hasn't really told it much about how the economy is responding to the war. Inflation is up, but so far only on the predictable rises in motor fuel and heating oil costs. Consumer inflation expectations have also predictably surged.

But measures of corporate price behaviour are more mixed. The PMIs pointed to rising output price pressure. But the Bank's own survey of companies – the Decision Maker Panel – didn't point to an unduly large pick up in inflation expectations. Unsurprisingly, most respondents said the war would lead them to raise prices, but crucially, wage growth expectations – the real driver of longer-term inflation persistence – are unchanged since the crisis began.

In short, it will take time to get a decent sense of whether firms are able to pass on higher energy costs to their consumers. And the Bank will want sight of the April CPI data, which will be released in May. That will give us a sense of how aggressive (or not) price hikes were at the start of the financial year. Given that large swathes of prices in the service sector are only updated once per year, this is fairly consequential for the inflation profile over the next 12 months.

Surveys don't point to a spike in wage growth



Source: Macrobond, ING

Expect an 8-1 decision in favour of "no change"

If the data has told us anything in recent weeks, it is that the economy is in a very different place from 2022 when the last energy crisis broke out. Employment is still falling across the consumer services industries and private sector wage growth has fallen – and crucially is now at a level the Bank told us in February was consistent with achieving the inflation target over the medium-term.

That's why, after last month's surprising show of unity, we expect the old divisions among committee members to come back to the fore. Though the framing has naturally shifted from "cut or hold" to "hold or hike", we'd expect the prior doves to place more emphasis on the differences with 2022 at this meeting than they did at the last.

But we think that's unlikely to extend to formal pushback against rate hike pricing in the policy statement. That's because the hawks are likely to become more vocal, too. We expect at least one official – Chief Economist Huw Pill – to vote for a rate hike. Megan Greene, and less likely, Catherine Mann, might also be tempted to join him. That most likely tees up an 8-1 vote in favour of keeping rates on hold. And at the very least, the hawks will want to keep talking up the possibility of a hike in June in a bid to keep inflation expectations under wraps.

We also doubt we'll get any fresh clues on policy direction from the new forecasts. On current market pricing, we think the Bank will have inflation peaking close to 4% this summer/autumn. But it will likely lean heavily on a scenario approach, given the uncertainty.

Politics is a risk, but we don't expect a rate hike this year

Finally, there's the politics. The Bank's hawkish signals in March were presumably at least in part directed towards lawmakers in Westminster – a warning against any big knee-jerk fiscal intervention in the energy crisis that might necessitate tighter monetary policy. So far, the government has been clear that any support will be targeted – and with natural gas prices where they are, the impetus to do more than that is limited, anyway.

But the risk of a leadership change in Downing Street is growing. Markets are wary that a new prime minister – and, by extension, chancellor – might mean more borrowing and looser fiscal rules.

So in short, we'd expect the Bank to keep its options open next week. Avoid doing anything that could add to rate hike bets in markets, but without trying to actively talk them down, either.

Ultimately, though, we don't think the Bank will hike rates this year – not at the current level of energy prices. We expect rates to stay at 3.75% in April and June, and for the rest of 2026.

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