Why we think the Bank of England will wait before raising rates

It's unlikely that the Bank of England will pull the trigger on a rate hike this week given the substantial uncertainty surrounding Omicron. But barring a severe hit to activity in January, we think policymakers will increase rates in February amid ongoing concerns about inflation. We expect two rate rises next year

Governor of the Bank of England, Andrew Bailey

Four scenarios for December's meeting

	Bank of England actions/comments			
	Decision	Growth/inflation	Future tightening	Market impact
1	No rate hike Unanimous decision	Concerns that Omicron could materially alter path for growth. Risk of more slack in the jobs market	Removes signal that Bank rate will need to go up in 'coming months'	EUR/GBP: **0.8550** 10Y yield: **0.65%**
2 (ING base case)	No rate hike 8-1/7-2 vote to keep rates on hold	Recent data points to tight jobs market. Committee worried about inflation. Waiting for more clarity on Omicron	Retains signal that Bank rate will need to go up in 'coming months'. Keeps door open to February move	EUR/GBP: **0.8500** 10Y yield: **0.75%**
3	15bp rate hike Split vote: 5-4/6-3 in favour of hike	Watching Omicron, but recent upside surprise to inflation and tight jobs market doesn't warrant waiting any longer	Hints that further gradual rate rises are needed, but vague about when these might be	EUR/GBP: **0.8400** 10Y yield: **0.80%**
4	15bp rate hike Unanimous decision	Omicron unlikely to derail UK recovery. Inflation risks have risen since last meeting	Strong hint that a further rate hike could come in Feb. Floats possibility of balance sheet reduction from Q1	EUR/GBP: **0.8350** 10Y yield: **0.85%**

Source: ING

Forecasts courtesy of ING's FX & Rates strategy teams

Bank to hold fire - but we could still get one or two officials voting for a hike this week

The Bank of England is highly unlikely to pull the trigger on its much-discussed rate hike this week. The committee showed in November that it's comfortable with waiting for more data – and we aren't going to know for sure what Omicron means for the UK recovery for at least a couple more weeks.

So what should we expect at December's meeting? Remember we aren't getting a press conference or new forecasts, so the focus is on any change in the policy statement's tone. Omicron aside, the data since November's surprise pause decision has largely vindicated the Bank's outlook. It's fairly clear that the end of the furlough scheme in September hasn't generated any discernible increase in redundancies.

Inflation has come in higher than the Bank was forecasting in November, and looks set to peak at 5% or above in April when the energy price cap is set to be hiked 25-30%.

With that in mind, we reckon we might still get one or two officials voting for a hike this week, which is something we saw last month too. That said, at least one of November's dissenters, Michael Saunders, has hinted he could change his vote to 'no change' this week. A unanimous decision to keep rates unchanged is possible.

Officials will continue to signal hikes this week

Either way, we expect the Bank to reiterate that it plans to hike rates in 'coming months', though we think officials will be keen to keep options open on the exact timing. As we wrote last week, there's plenty of uncertainty over what Omicron means for activity in the next few weeks.

Will further restrictions be needed? Will consumers stay at home more voluntarily? Will the government introduce new business support measures? There are plenty of unknowns. We expect a February rate hike, but that could be delayed further if the hospital pressure builds and the Omicron wave is still in full swing as we approach the first meeting of 2022.

That said, given the apparent efficacy of booster vaccines, which are being rapidly rolled out in the UK, we aren't convinced Omicron will leave a lasting mark on the economic recovery. And if it sounds like the BoE is taking a more cautious line than the Fed or the ECB this week, then remember that the UK central bank has already long since tapered its QE programme. Net purchases are due to end in the next couple of weeks.

Read: The Bank of England's Omicron conundrum in nine charts

A rate hike is still only a matter of time

In short, it's only a matter of time before the Bank hikes rates. After a 15bp move in February, we expect a full 25bp hike in August, and wouldn't totally rule out another later in the year.

That still suggests markets are overestimating the pace of tightening next year. Investors expect the Bank rate to end 2022 at around 1%, which seems unlikely at this stage. We expect headline inflation to have slowed by the end of 2022, and the outlook for wage growth looks less explosive than in the US.

If nothing else, given the visible division on the committee surrounding the first 15bp rate hike, finding majority support for a rapid succession of rate hikes in 2022 could be challenging.

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