Bulls to Carney: ‘Please Sir, I want some more’

The Bank of England will strive to get the balance just right today, with a ‘Goldilocks' tone that is not too hawkish and not too dovish, to keep markets where they are.

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GBP: A BoE ‘goldilocks job' today will be neutral-mildly bullish for the pound

**Feb ‘Super Thursday' BoE preview:** Today's focus will largely be on the number of dissenters, the MPC's guidance around forthcoming rate hikes and the Bank's economic forecasts. A BoE 'goldilocks job' will be neutral-mildly bullish for sterling.

- As for dissenters, two members voting for a 25bp rate increase today would be a clear signal that a May BoE rate hike looks more than likely (>50%). Yet, equally, we do not think that a 9-0 vote to stay on hold – and no dissenters today – changes the implicit odds of a May rate hike. With any additional BoE policy tightening all but contingent on a smooth Brexit process, a prudent policymaker may opt to wait for greater clarity on a UK-EU transition deal – likely to materialise over the next four-six weeks ahead of the 22-23 March EU leaders summit – before committing to a rate hike. Thus, we wouldn't be surprised if the resident hawks Ian McCafferty and Michael Saunders opt to remain on hold today – and would not see this as a reason for GBP to move lower.

- As for the projections – and beyond the expected upgrade to the GDP profile – the key focus is on the MPC’s judgement on the supply potential of the UK economy. The key phrase for a May hike here is that the economy is ‘close to operating at full capacity'. Yet, the Bank upgrading the UK's potential growth rate – but taking a more patient policy approach to absorb the greater excess spare capacity – is not exactly a bad thing for GBP’s medium-term outlook.

**FX implications:** While it may be tempting for GBP bulls to ask Governor Mark Carney ‘Please Sir, I want some more', we think the BoE will be looking for a ‘goldilocks job' today – that is sounding not too hawkish and not too dovish, but getting the balance just right to keep markets where they are. We are still bullish on GBP/USD over the medium-term (targeting 1.45). With the Italian elections and more cautious ECB talk keeping EUR/GBP upside in check, we're targeting 0.86 for 1Q18.

USD: Staging a mini-recovery but the DXY index may find a top around 90.50
A fairly quiet day in the US with only a few Fed speakers to note. The US dollar index is staging a mini-recovery in these nervous equity markets and news of a Budget deal.

**EUR: ECB speeches today may be more exciting after Nowotny's $ comment**

It’s a day of ECB comms – with four Governing Council members speaking and the central bank’s monthly Economic Bulletin also to keep an eye on. Kicking off proceedings will be arch-hawk Jens Weidmann – while Peter Praet, Francois Villeroy and Yves Mersch are also due to speak. With fellow member Ewald Nowotny reportedly stating that the US Treasury is ‘purposely’ pushing down the dollar, we wouldn’t be surprised to see some FX related comments. EUR/$ to stay supported above 1.2200/50.

**MXN: Expect a 25bp hike from Banxico but not much further policy guidance**

ING’s Chief LATAM Economist Gustavo Rangel is looking for another rate hike at today’s Banxico meeting – with the balance of risks tilted towards the hawkish side. Assuming NAFTA headline risks fade, we expect the Mexican peso to follow a slightly stronger path (ie, USD/MXN rising to 20 instead of 21-22) despite election risks.

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