The Bank of England's August dashboard

The Bank of England is gearing up for a rate hike this week, but this could be the last increase for quite some time. With talk of a 'no deal' Brexit ramping up, we don't expect the Bank to hike again before May 2019

Bank of England: Last hike before Brexit?

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Four Bank of England scenarios for August

Scenario (more hawkish ↓)	No. of rate hike votes	Bank of England view/comments: Growth	Inflation/Wages	Brexit progress	Rate hike path	Market impact
① No rate hike. Brexit forces rethink	3 Hike votes	Lowers growth outlook on trade war concerns, 'no deal' Brexit risk & consumer caution	Core inflation falling faster. Wage growth to rise more slowly than hoped	Subtle nod to 'no deal' risk. Emphasises importance of transition period	Removes signal that "ongoing tightening" required over "forecast period"	May 2019 hike probability: 20% (↓) EUR/GBP: 0.904 GBP/USD: 1.285
② Rate hike. Committee divided	6 Hike votes	Growth largely rebounded but notes some modest risks to global growth	Highlights slower wage growth, but still expects it to slowly rise over time	Reintroduces language about Brexit being most significant source of uncertainty	Reiterates tightening bias, but perhaps more emphasis on "limited" & "gradual"	May 2019 hike probability: 40% (↓) EUR/GBP: 0.895 GBP/USD: 1.300
ING base case: ③ Rate hike. Cautious optimism	8/9 Hike votes	2Q growth has rebounded. Demand to continue rising slightly faster than supply	Unfazed by wage growth dip. Sees some upside to pay given tight jobs market	No comment on Chequers plan. If asked in press conf, Carney says it's "too early to assess"	Reiterates that "gradual" hikes still needed but no further hints on timing	May 2019 hike probability: 50% (=) EUR/GBP: 0.886 GBP/USD: 1.315
④ Rate hike. Full speed ahead	9 Hike votes	Economy has rebounded and is starting to build fresh momentum	Expects wage growth to re-accelerate, risk of persistently above-target inflation	Comments on Chequers plan – says frictionless borders would be positive	Hints that curve too flat, next hike may be earlier than markets expect	May 2019 hike probability: 70% (↑) EUR/GBP: 0.880 GBP/USD: 1.325

Source: ING

Currency forecasts by ING's FX Strategy Team

In a nutshell: BoE to hike but keep quiet on its next steps

Markets are more-or-less fully pricing in a rate hike at this meeting, and we don't expect the Bank of England to disappoint. The economy appears to have rebounded in the second quarter and we think we could see a unanimous 9-0 vote in favour of a rate rise on Thursday (although there is a risk that Deputy Governor Jon Cunliffe dissents).

However, we expect the Bank to keep its cards close to its chest on the timing of its next move. While we suspect policymakers would like to hike again in the not too distant future, Brexit uncertainty and talk of 'no deal' could make it very complicated to do so. Beyond the usual signal that more "gradual" and "limited" tightening is needed, we don't expect any stronger hints from the Bank this week.

1 The economy has rebounded

Back in May, the Bank of England said that it was confident the economy would rebound after a weak start to the year - and not only that, it expected the original 0.1% 1Q growth figure to be revised higher. It's fair to say markets weren't convinced. Rate hike odds slipped below 40% in the days after the May meeting.

But since then, the data has largely backed up the Bank of England's story. The sun has given the high street a much-needed boost, while the overall service sector has recovered strongly. We still think the cracks in the economy (particularly in retail) could re-emerge; consumers are still fairly pessimistic on the economic situation, while real incomes remain under pressure. But for now at least, the economic story is largely playing out as the Bank had hoped it would back in May.

Admittedly there is one exception: wage growth. This is a key part of the Bank's rate hike rationale and it has lost some momentum since the turn of the year. The 3M/3M annualised change in earnings, a good measure of the short-term trend, has slipped from 3.1% in November to 2.6% now - although we doubt this will cause too many sleepless nights for the committee at this stage. Policymakers still expect pay to rise more rapidly as skill shortages in the jobs market intensify.

With a few exceptions, data has generally rebounded in 2Q

Date	Previous event/data release	Date	Previous event/data release
15 May	March Average weekly earnings	29 June	June GfK Consumer Confidence
15 May	March Employment Change (3M/3M)	29 June	May Consumer Credit
23 May	April Inflation (Core CPI)	29 June	April Index of Services
24 May	April Retail Sales	29 June	1Q F GDP (Second revision)
25 May	March Index of Services	02 July	June Markit UK PMI Manufacturing
25 May	1Q GDP (First revision)	04 July	June Markit/CIPS UK Services PMI
31 May	May GfK Consumer Confidence	10 July	June BRC Retail Sales
31 May	April Consumer Credit	10 July	May Trade balance
01 June	May Markit UK PMI Manufacturing	10 July	May Industrial Production
05 June	May BRC Retail Sales	10 July	May Construction Output
05 June	May Markit/CIPS UK Services PMI	10 July	May Index of Services
11 June	April Trade balance	10 July	First monthly GDP estimate
11 June	April Industrial Production	12 July	June RICS House Price Balance
11 June	April Construction Output	17 July	May Average weekly earnings
12 June	April Average weekly earnings	17 July	May Employment Change (3M/3M)
12 June	April Employment Change (3M/3M)	18 July	June Inflation (Core CPI)
13 June	May Inflation (Core CPI)	19 July	June Retail Sales
14 June	May RICS House Price Balance	31 July	July GfK Consumer Confidence
14 June	May Retail Sales	01 August	July Markit UK PMI Manufacturing
21 June	Bank of England Bank Rate	02 August	Bank of England Bank Rate

Key
Increase/stronger reading (Hawkish)
Decrease/weaker reading (Dovish)
Neutral outcome

Source: Bloomberg, ING

We think a unanimous 9-0 vote is likely - risk is Jon Cunliffe dissents

When the BoE hiked in November, there was some clear disagreement on whether a rate rise made sense. But this time, it looks like the monetary policy committee (MPC) is more united. Governor Mark Carney said earlier this month that the economy has "bounced back" after "erratic weakness" in the first quarter. That was echoed by policymaker Dave Ramsden - one of two dissenters back in November - who said recently that the data flow is making him "more comfortable with the balance of risks" than he was before.

So having already had three members voting for a rate hike back in June, it looks like we'll get at least eight voting in favour this week. The big question is whether Deputy Governor Jon Cunliffe joins the pack. He has struck a more cautious tone recently, although we think it's 50:50 as to whether he actually chooses to vote against a hike again.

We narrowly think we'll get a unanimous 9-0 vote, but we wouldn't rule out a lone dissenter.

3 Expect the Bank to keep quiet on its next steps

After this week, markets are barely pricing in another rate hike before the end of 2019. In an ideal world, we suspect the Bank of England would like to hike earlier, and would therefore like to see investors anticipating more tightening (or in other words, engineer a steeper rate curve). But in reality, with Brexit noise ratcheting up, it's not clear when the Bank's next opportune moment to hike will come.

With Prime Minister Theresa May facing heavy pressure from Conservative MPs on both sides of the Brexit divide, it's highly uncertain whether she'll be able to get a deal passed by Parliament when the time comes. Talk of 'no deal' has been ramping up as a result, particularly as details of the government's 'hard Brexit' plans have emerged.

As we discussed in more detail last week, we still think the probability of the UK crashing out without a deal is low. Both sides are now focused on finding a workable solution for the Irish border, which will enable the overall withdrawal agreement to be concluded. While whatever arrangement for Ireland is likely to prove contentious in the UK Parliament, the alternatives if the deal is rejected (a second referendum, another election, or article 50 extension) are probably even more unpalatable for Brexiteer MPs.

So in the end, we expect a deal to pass, enabling the transition period to begin. But crucially, this could all come quite late in the day. The UK and EU are still targetting October's EU summit to reach a deal, but we suspect a delay until December's summit is more likely. Only then can ratification by EU member states - including the UK - begin.

In the meantime, 'no deal' talk is only likely to get louder and if that begins to hit consumer and business sentiment, it could get increasingly complicated for the Bank of England to hike rates again.

For that reason, we think it is unlikely that the Bank will offer any further rate hike clues this week - beyond the usual signal that "gradual" and "limited" tightening will be needed. We don't expect another rate rise before May next year, at the earliest.

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