The Bank of England's June dashboard

We expect the Bank of England to talk up the possibility of further tightening at its meeting this week. But amid all the Brexit uncertainty – in particular, the rising risk of a late-2019 election – we think policymakers will keep rates on hold this year

Source: Shutterstock

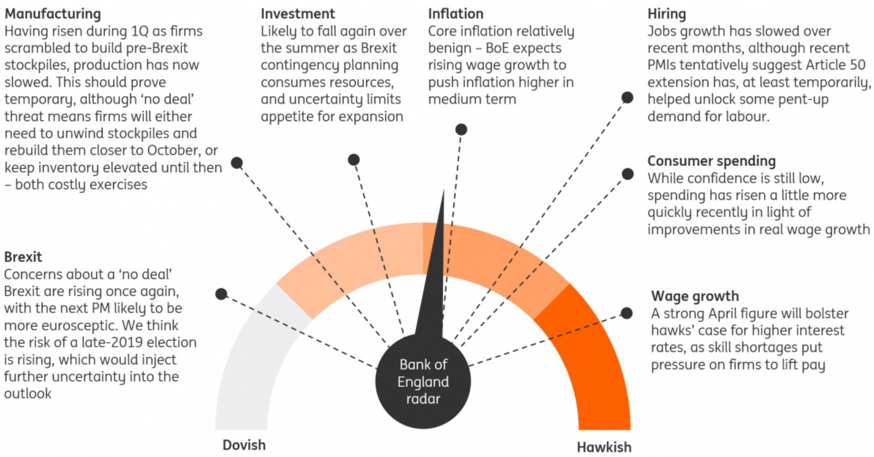
Will the Bank of England hike interest rates in 2019? Set against the prospect of both US and eurozone monetary easing, this may seem unlikely – and in fact, markets now think UK rates are marginally more likely to fall rather than rise over the next two years. However, this is in stark contrast to recent comments from BoE policymakers – most of which have signalled that rates may need to rise sooner than investors think. So who's right?

> *We think it's unlikely the Bank will get an opportunity to tighten further this year*

Well, the growth story at least suggests caution. While the growth numbers are being thrown around by the effect of Brexit stockpiling - potentially resulting in a very poor second-quarter GDP figure - the underlying story is still fairly mixed.

Consumer spending has been performing a little better, given a gradual improvement in real wage growth. However, this is likely to be offset over the summer by a further fall in investment. Contingency activities for a possible 'no deal' exit in October will be both time and resource-intensive for firms, limiting appetite/scope for increased capital spending. Global growth risks have also risen amid President Trump's threat to impose further tariffs on Chinese imports.

ING's Bank of England radar



Source: ING

Solid wage data - a key focus for policymakers

It's worth noting though that a fair chunk of this uncertainty is already factored into the Bank's latest forecasts. At the same time, wage growth is continuing to perform solidly - a key ingredient in the BoE's rate hike rationale. Earnings growth excluding bonuses increased to 3.4% YoY in April, albeit some of this was down to a fairly sizeable pick-up in public sector pay (reportedly centred within the health service).

On balance though, this recent data should help to bolster the Bank's view that wage growth will continue to rise in the medium-term as skill shortages intensify.

Expect the BoE to continue talking up prospects of rate hikes

With that in mind, we expect policymakers to continue hinting that markets are underestimating the risk of further tightening. It's possible that the Bank says this more explicitly within either its statement or set of minutes (released simultaneously) this week, particularly given that market interest rate expectations have completely flattened since the May meeting.

There is also an outside chance that one or two policymakers vote for an immediate 25bp rate hike at this meeting - Michael Saunders, in particular, has taken a hawkish stance in public recently.

We don't expect a rate hike this year

Ultimately though, we think it's unlikely the Bank will get an opportunity to tighten further this year. While we think the probability of 'no deal' is still relatively low (around 20%), the risk of a late-2019 election is rising, and this would inject another layer of uncertainty into the UK outlook.

Recent rhetoric from the BoE suggests a November move shouldn't be totally ruled out, but the fact that this meeting falls only a week after the October 31 Brexit deadline makes for challenging timing. Barring either a swift ratification of a Brexit deal, or a further six-month Article 50 extension, we think policymakers are more likely to keep policy on hold through 2019.

Read our three scenarios for Brexit under Boris Johnson

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