

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

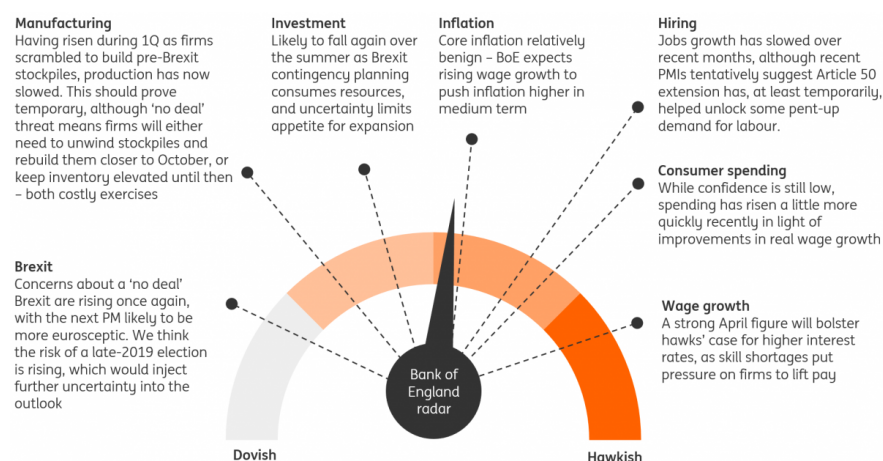
Will the Bank of England hike interest rates in 2019? Set against the prospect of both US and eurozone monetary easing, this may seem unlikely – and in fact, markets now think UK rates are marginally more likely to fall rather than rise over the next two years. However, this is in stark contrast to recent 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](#)

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.