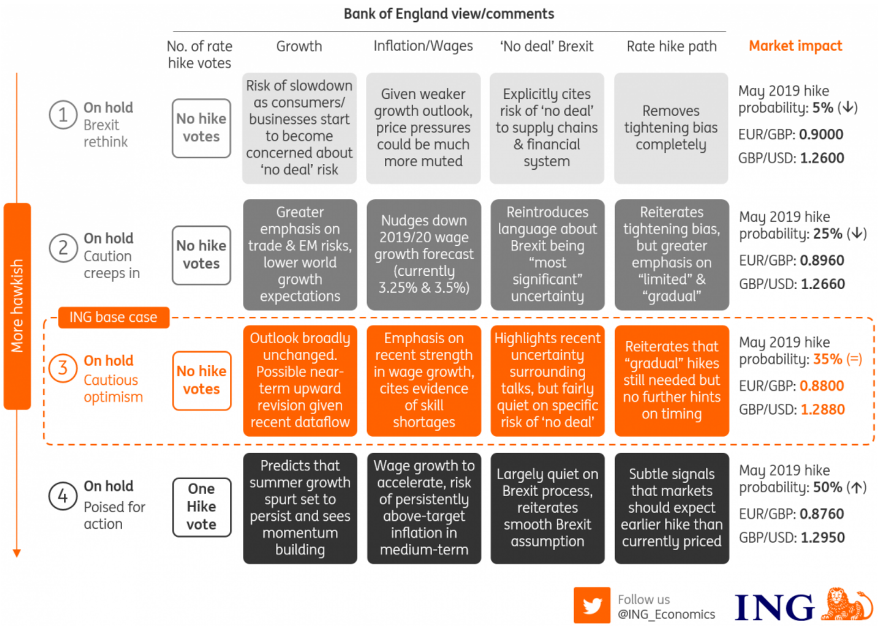
The Bank of England's November dashboard

Despite better economic activity over the past few months, Brexit remains the Bank of England's number one priority. We expect a unanimous vote to keep policy unchanged this week and don't expect any further rate rises before May 2019 at the very earliest

Four Bank of England scenarios for the November meeting



Source: ING

Currency forecasts by ING's FX Strategy Team. Market impact based on figures from 26 October 2018

In a nutshell: Bank to keep quiet on next steps as 'no deal' risk builds

In any other situation, we suspect the Bank of England would have been looking to increase interest rates pretty soon. Wage growth - something which has been at the heart of the Bank's rate hike rationale has been surprisingly strong over the past few months. But inevitably, Brexit remains policymakers' number one consideration. Given that it may still be quite some time before we really know for sure if a deal will be in place before the UK formally leaves the EU, there is a risk that growth slows as businesses and consumers grow more cautious.

That means we're likely to see a unanimous vote to keep policy unchanged at Thursday's meeting, and we don't expect a rate hike before May 2019.

What will Carney say about the 'no deal' risk

There's little doubt the economy had a good run over the summer, and the sunnier weather could easily see a 0.5% or even 0.6% growth figure for the third quarter. That's likely to be reflected in the Bank's new shorter-term projections, but the real question is what comes after.

We don't expect the BoE to make any drastic changes to its numbers, although we may see some marginal downgrades to the 2019/20 profile. Since August, the yield curve has steepened (or at least, it had until a week or so ago), while the outlook for global growth has softened a little.

> *The real question - and the one that is likely to dominate the headlines in the aftermath of Thursday's meeting - is what the Bank has to say on the risk of a 'no deal' Brexit*

Given the mounting uncertainty surrounding the negotiations, the BoE's 'smooth Brexit' assumption is looking challenged. Even though our base case is that a deal will be agreed, and in the end ratified by the UK parliament, there is a clear risk that this doesn't happen until we're really close to the UK's scheduled exit date.

Without the certainty that a deal will be in place in March, an increasing number of firms are likely to implement contingency plans, and this would inevitably put pressure on investment and hiring. If firms continue to become more vocal about the risks, consumer confidence could also take a hit, making for another challenging Christmas trading period for retailers. Taken together, that could see growth momentum slow over the winter.

> *We may well see more explicit Brexit warnings in the statement*

Admittedly, we doubt we'll see much of this incorporated into the Bank's forecasts this time - and realistically, it's unlikely policymakers will somehow put greater weight on the 'no deal' scenario in the average of Brexit outcomes it builds into its projections. But we may well see more explicit Brexit warnings in the statement. In the past, the BoE has described the unknowns surrounding the UK's EU exit as the 'most significant' uncertainty, while Governor Carney has previously been vocal on the need for a transition period.

It's also worth noting that the Bank of England will provide a forecast of both the final deal (assuming there is one) and a 'no deal' to Parliament, following an agreement between the UK and

EU over coming weeks.

Bank to keep cards close to its chest on rate hike timing

On multiple occasions since the 2016 referendum, the Bank of England has used the language in its statement to signal that market rate hike expectations were too low. And 'in theory' at least, policymakers probably feel the same way now.

> *We suspect the Bank would like to hike once, if not twice in 2019 in response to the price pressures from rising wage growth*

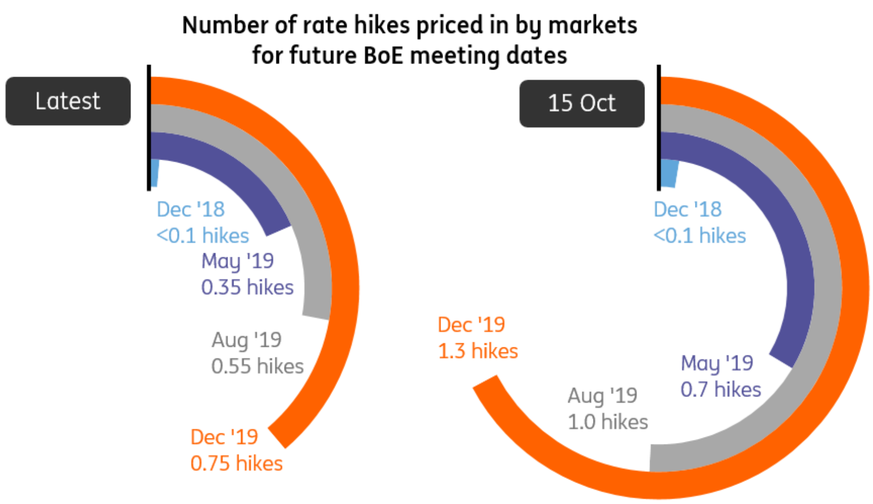
Investor expectations have really swung over the past couple of weeks - partly in response to the global fall in yields - and are now only pricing around a 60-70% chance of a rate hike at all in 2019. By contrast, we suspect the Bank would like to hike once, if not maybe twice, next year in response to the price pressures it sees stemming from rising wage growth.

But given the uncertainty surrounding Brexit, it's hard to see policymakers making a point of this at Thursday's meeting. We suspect the Bank will stick to its vague message that "limited" and "gradual" rate hikes will be needed, without offering any further hints on timing.

Our base case is that there won't be another rate hike before the UK leaves the EU next March. If a deal is reached and approved by MPs (despite the current bluster) later this year/early next, then this somewhat smoother outcome could open the door to a rate hike in May 2019.

However if talks slip further into the new year, or if lawmakers reject the deal (or introduce tricky roadblock amendments forcing the Prime Minister back to the negotiating table), then this date could easily get pushed back - even if 'no deal' is averted at the last minute.

Investors have cut their interest rate expectations



Source: Bloomberg, ING calculations
Calculations based on overnight index swaps (OIS) on specific meeting dates, relative to the overnight rate (SONIA). One rate hike = 0.25bp

Author

James Smith
Developed Markets Economist
james.smith@ing.com

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