

We're still expecting a summer UK rate cut despite market doubts

We're still expecting an August rate cut from the Bank of England, despite some stubborn services inflation data and the surprise announcement of an early election



Party leaders Sir Keir Starmer and Rishi Sunak debate ahead of July's general election

Markets have priced out UK rate cuts

In the space of just a couple of weeks, UK markets have gone from pricing 60 basis points of Bank of England rate cuts this year to just 35bp. Having previously viewed a June rate cut as a 50/50 call, investors are now only fully pricing the first move in November.

This looks like a severe overreaction, for three reasons.

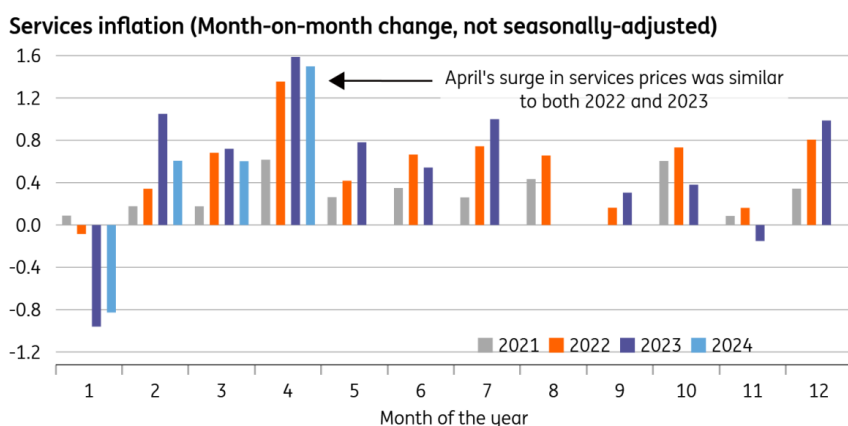
Firstly, the surprise announcement of a July general election will have virtually no discernible impact on the Bank of England this year. In the campaign itself, the issue of the Bank of England's decision-making has so far largely stayed outside of the political arena. We think it would be a mistake to assume policymakers won't cut in June purely on the basis of the election – although the restrictions on the Bank's ability to communicate during the campaign (e.g., a ban on press conferences) would complicate the logistics.

Then there's fiscal policy. The opposition Labour Party – which looks set to win a convincing

majority on 4 July – is signalling little to no change on the big picture tax and spend policy levers. As long as that remains true, the implications on the BoE are likely to be minimal. At the very least, the Bank can only act on what is officially government policy, and the first budget under a new government is unlikely until the Autumn.

Secondly, and most importantly, the shock upside surprise to April's services inflation data is unlikely to be repeated in May or June's data. As we've warned for a while, April's numbers were always going to be skewed by the impact of annual, contractual price rises. We saw exactly the same phenomenon in April 2023 and at the time, investors wrongly inferred that this meant the UK's inflation problem was significantly worse than elsewhere. With the jobs market cooling and pricing intentions looking less worrisome, services inflation should gradually cool as the year progresses.

April's services inflation stubbornness likely won't be repeated



Source: Macrobond, ING calculations

Bank of England Governor is ready and willing to cut rates

Finally, it's clear that key figures at the Bank are keen to get on with the job of cutting rates. Governor Andrew Bailey was unambiguously dovish at the most recent press conference, hinting that the Bank could cut rates imminently and further than markets are pricing. The issue is that not all of his committee is on board, and that includes three of the nine strong committee members that are visibly against imminent rate cuts. We don't hear all that often from some of the so-called "internal" members who likely hold the deciding vote – and the pre-election blackout means we won't do so before the June meeting. But we think that by August's meeting, assuming the data shows April inflation was a blip, then a majority will rally behind the idea of cutting rates.

We're therefore sticking to our base case for an August rate cut and three cuts in total this year.

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.