

Why the Bank of England won't hike rates this week

Expect signs of disunity as most officials continue to 'look through' rising prices while growth momentum fades



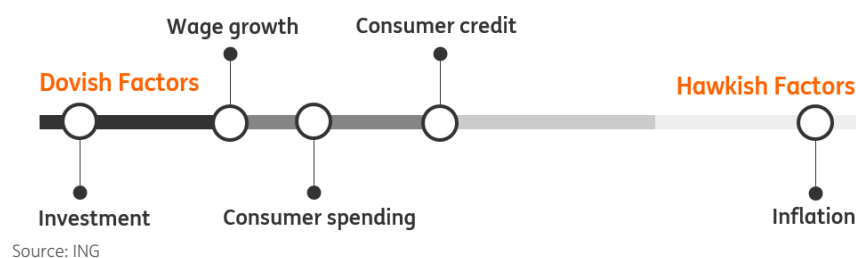
Source: Bank of England

Why there won't be a hike

From a surprise dip in core inflation to a deterioration in consumer confidence, latest data has not supported the Bank's recent rate hike signals. We'd expect some hawkish comments again this week, albeit with evidence of a disunited Monetary Policy Committee (MPC). We think a rate hike this year is unlikely, and suspect the recent hawkish shift is mostly designed only to get markets considering the risk of tighter policy.

Voters to 'look through' inflation spike as growth weakens

- Wage growth**
 Elevated uncertainty over Brexit and consumer demand, along with rising costs via higher import prices, mean firms have limited incentive to raise wages quickly.
- Investment**
 Various surveys still suggest uncertainty is holding back investment. A Brexit transition deal could start to offset this if agreed promptly and communicated clearly.
- Consumer spending**
 Warm weather and a late Easter gave retailers temporary respite in the second quarter. But falling real wages means this is unlikely to last. Confidence is now as low as it was immediately after the Brexit vote.
- Consumer credit**
 The rapid increase in unsecured lending (10% YoY) is a potential risk when raising rates, particularly given the already fragile consumer spending outlook.
- Inflation**
 Headline CPI surprisingly fell in June, but the impact of the weaker pound will continue to feed through to prices. Expect CPI to stay close to 3% over the next 12 months, testing the patience of BoE hawks.



Most BoE officials aren't supportive of a hike

Despite the hawkish shift at the Bank of England, so far only two (current) members have voted for a hike. Andy Haldane seems to be coming around to the idea too, however like Carney, his decision to raise interest rates hinges on a pick-up in investment and wage growth. We think that's unlikely at this stage - a view shared by Broadbent and Vlieghe. Cunliffe tends to vote with the Governor, and Tenreyro is unlikely to rock the boat at her first few meetings.

We expect the MPC to vote 6-2 in favour of keeping rates on hold - but there's a risk the needle notches up to three if Haldane votes for a hike.



Source: ING

More narratives than a Game of Throne episode?

Status quo from the BoE this week - and a lack of emerging consensus over how best to address the growth-inflation trade-off - is unlikely to have a major impact on short-term UK interest rates or the near-term outlook for the pound. While some of the recent hawkish sentiment may fade as a result of the Bank showing little appetite for a policy change, we suspect that only a formal ruling out of a 2017 rate hike by Governor Carney - if explicitly asked in the post-meeting press conference - would have a sustained negative impact on GBP. We see this as highly unlikely given that BoE officials will probably want to keep all policy options on the table.

BoE 'Super Thursday' Scenarios: Confusion to reign as we expect more narratives than a Game of Thrones episode

		Key policy considerations			
Four scenarios for the August BoE meeting		Tolerance for above-target inflation	Degree of labour slack & underlying price pressures	Concerns over consumer credit & low policy rates	Market reaction*
More hawkish ↓	<div>1</div> <div>Winter is coming</div> <div>Slowing economic activity weighs on the Bank's growth outlook and sees the MPC turn more cautious</div>	<div>Dovish hold</div> <div>Vote split: 7-1</div> <div>Hawks retreat on soft inflation</div>	<div>Softer core CPI data and stable inflation expectations allows for greater tolerance</div>	<div>Questions over the traditional Phillips Curve relationship & a wage growth pickup</div>	<div>Macro-prudential policy tools best suited to tackle financial risks</div>
	<div>2</div> <div>ING Base</div> <div>Ice and fire trade-off</div> <div>Faced with a stark choice between curbing fiery inflation & thawing icy growth, MPC show no consensus</div>	<div>Confusing hold</div> <div>Vote split: 6-2</div> <div>Haldane stays on the fence</div>	<div>No change in the MPC's growth-inflation trade-off judgement</div>	<div>No consensus but hawks point to modest tightening of labour market</div>	<div>Some officials see financial stability risks from ultra low interest rates</div>
	<div>3</div> <div>Low interest rates the wildfire of financial markets</div> <div>Growing credit bubble risks as low rates spread through markets</div>	<div>Hawkish hold</div> <div>Vote split: 5-3</div> <div>Haldane joins rate hike camp</div>	<div>Diminishing as inflation remains meaningfully above 2% target</div>	<div>MPC see upside risks to inflation due to stronger domestic price pressures</div>	<div>Inflation Report adds reigning in credit growth as a key policy judgement</div>
	<div>4</div> <div>Seeing the White (Walkers) of inflation's eyes</div> <div>BoE begin building a policy wall to protect against future inflation</div>	<div>25bp hike</div> <div>Narrowly passed through with 2 or 3 dissenters</div>	<div>Tolerance for above-target inflation low & can afford to reverse post-Brexit rate cut</div>	<div>Forward-looking assumptions over output gap require a policy move now</div>	<div>Prudent to start removing ultra-accommodative stimulus now</div>
					<div>Nov hike odds</div> <div>10%</div> <div>2Y swap rates</div> <div>-10bp</div> <div>GBP/USD</div> <div>1.2950</div> <div>EUR/GBP</div> <div>0.9050</div>
					<div>Nov hike odds</div> <div>30%</div> <div>2Y swap rates</div> <div>-5bp</div> <div>GBP/USD</div> <div>1.3050</div> <div>EUR/GBP</div> <div>0.8990</div>
					<div>Nov hike odds</div> <div>50%</div> <div>2Y swap rates</div> <div>+15bp</div> <div>GBP/USD</div> <div>1.3250</div> <div>EUR/GBP</div> <div>0.8830</div>
					<div>Nov hike odds</div> <div>Low</div> <div>2Y swap rates</div> <div>+30bp</div> <div>GBP/USD</div> <div>1.3400</div> <div>EUR/GBP</div> <div>0.8750</div>

*Market prices as of 31 July 2017. 35% implied probability of a Nov rate hike. 2Y swap rates: 0.60%. GBP/USD: 1.3110. EUR/GBP: 0.8950.

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Source: ING

[Read how the pound could react on 'Super Thursday'](#)

Author

James Smith

Developed Markets Economist

james.smith@ing.com

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