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

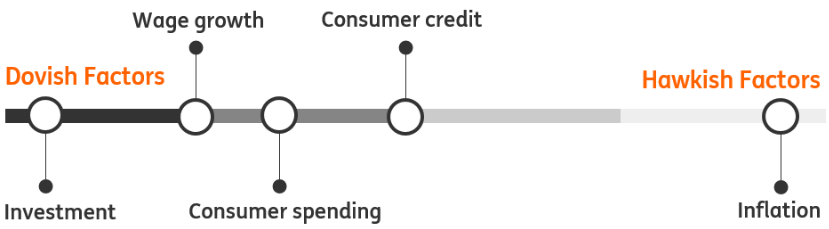
- **Wage growth**
  Elevated uncertainty over Brexit and consumer demand, along with rising costs via higher import prices, mean firms have limited incentive to raise wages quickly.

- **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.



Source: ING

Most BoE officials aren't supportive of a hike

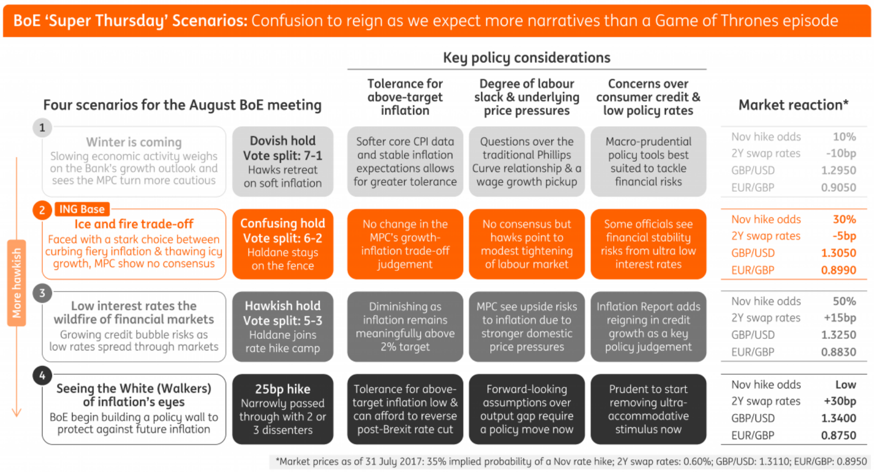
Despite the hawkish shift at the Bank of England, so far only two (current) members have voted for a hike. Andy Haldane seems to be coming around to the idea too, however like Carney, his decision to raise interest rates hinges on a pick-up in investment and wage growth. We think that's unlikely at this 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.



Source: ING

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

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