

## Bank of England cuts rates and there are more to come this year

The Bank of England is staying tight-lipped on when it expects to cut rates again. But we think better news on services inflation and wage growth can unlock one, or more likely two rate cuts by year-end



Bank of England Governor Andrew Bailey. We suspect services inflation and wage growth will improve as the year goes on, making the committee more comfortable with proceeding with at least one more cut this year

The Bank of England has cut rates for the first time this cycle, by a quarter point to 5%. But reading the statement and the meeting minutes, the Bank appears incredibly reticent to let markets run away with the idea that this could be the start of a rapid cutting cycle.

The statement itself makes no reference to the possibility of future cuts, and simply says that rates need to stay restrictive for “sufficiently long”, a sentence it has included for quite some time now. The decision was clearly controversial, with five committee members narrowly outvoting the four that wanted to keep rates on hold for another month. And for those that did switch from a hold to a cut at this meeting, the minutes again reveal that the decision was “finely balanced.”

None of that should come as a huge surprise, for three reasons. Firstly, unlike the European Central Bank or the Federal Reserve, the Bank hasn’t made a habit of making precommitments to future policy changes ahead of time.

Secondly, the recent stubbornness in services inflation offers up a range of interpretations about

the level of price pressure in the UK economy. Services inflation at 5.7% is both well above target/historical averages, and crucially higher than what the Bank had been forecasting in May. A lot of the recent upside surprise looks like noise, but we'll get two more reports before September's meeting and further overshoots would help cement a pause at that meeting.

Finally, the BoE's new inflation forecasts tell us that policymakers are pretty comfortable with what markets are pricing right now in terms of rate cuts. The mean inflation forecast in two years' time stands at precisely 2%, based on a swaps curve that included roughly three more cuts over the next year and two the year after at the time those projections were formed.

Having said all of this, we think the Bank of England will ultimately cut rates faster than the committee is currently prepared to admit. We suspect the data on services inflation and wage growth will improve as the year goes on, making the committee more comfortable with proceeding with at least one more cut this year. We suspect that will most likely come in November, and we think that will most likely be followed by another in December. A September rate cut is entirely plausible though, if the services inflation data starts meaningfully surprising to the downside. We think Bank Rate could reach the 3-3.5% area by next summer.

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