

## Bank of England cuts rates with three more to come this year

The Bank of England's latest decision, which saw two members vote for a more aggressive rate cut, has caught markets slightly off-guard. But the overall message is a gradual one and we're sticking to our call of four rate cuts in total this year



Governor Andrew Bailey voted to cut rates by 25bp today

There's nothing unusual or unexpected about the Bank of England's decision to cut rates by 25 basis points to 4.50% this month. As for the vote split, well that's anything but.

Expectations ahead of the meeting today were that eight committee members would vote for the cut and that we'd see Catherine Mann, until now the arch-hawk, vote to keep policy unchanged. After all, she didn't vote in favour of either of the prior two rate cuts and had been voting for hikes long after the rest of the committee had decided rates had gone high enough.

That is until now. Not only has Mann ended her fight against rate cuts, but she has doubled down with a vote to slash rates by 50bp. Though not directly attributed to Mann, the meeting minutes suggest that she saw a need to give a "clear signal" on where interest rates need to get to, whilst still recognising policy needs to stay restrictive for some time to come.

That might sound counter-intuitive, but perhaps those voting for a larger cut, which also included long-standing dove Swati Dhingra, had half an eye on the UK mortgage market. In Britain, the vast majority of home lending is done on fixed interest rates, even if the fixed term lengths are typically shorter than elsewhere. That means when the Bank cuts rates, it takes much longer for the impact to show up for homeowners.

Obviously, this isn't the only way monetary policy feeds through, but it's a key channel. And you can make a reasonable economic case for cutting rates quickly to a more neutral level to generate a swifter passthrough to households.

Mann speaks next week, so we'll hear whether or not this is part of her thinking. More importantly, it doesn't seem to be a consensus view on the committee. Remember that the "external members", of which there are three, including Dhingra and Mann, are historically far more likely to dissent on decisions than the internal members, which include Governor Andrew Bailey and his deputies.

This seemingly more dovish tint to the vote split is also offset by a fairly hawkish set of forecasts. These numbers are based on market pricing from January, which was 30-40bp higher than today. Even then, inflation is seen a tad above the target in two years' time. The overall message from this meeting was one of gradualism on future rate cuts.

That might explain why the market reaction today isn't huge. Interest rate expectations across the curve are around 8bp lower, which takes the market closer to pricing four full rate cuts in 2025 – one per quarter.

That feels to us like the path of least resistance, though today's vote split does suggest there's an outside chance the Bank still moves faster. We think services inflation, a key guiding force for the BoE, is set to fall back in the second quarter and probably further than the Bank's latest forecasts indicate. Policymakers think this will float around 5% until June (4.4% currently), though as the latest report also notes, some of this is linked to changes in regulated prices. The jobs market, which is showing a few signs of fragility, is also a dovish risk for the Bank.

For now though, we still expect the next cut in May, with further moves in August and November.

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