

Bank of England decision boosts chances of a March rate cut

Another heavily divided Bank of England decision lowers the bar for a rate cut next month. So long as the data continues to follow recent trends – weaker employment, lower wage growth, easing inflation – then we think a March cut is likely to be followed by another in June



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February decision boosts chances of a March cut

The Bank of England has voted to keep rates on hold at 3.75%. But it was hotly contested – more so than expected. Four voters from the nine-strong committee voted for another cut at this meeting.

The decision unquestionably boosts the chances of a March rate cut, which is a bit of a surprise. Not much has changed in the economic data since the December meeting, where the Bank cut rates but signalled it could slow the pace of easing. Instead, it seems those voting for another cut this month were swayed not by the data but by new analysis contained in the accompanying Monetary Policy Report.

That analysis states that the rate of wage growth, which is consistent with the 2% inflation target, is around 3.25%. That's barely below current rates of private sector pay growth of 3.6%, which we

expect to drop to 3% within months. The latest survey from the Bank's Agents across the country reveals 2026 pay growth expectations of 3.4%. Again, roughly in line with that target-consistent estimate.

The report also cites evidence suggesting there's been little structural shift in wage-setting behaviour among UK corporates. That goes against the argument some of the Bank's hawks – notably Huw Pill – have been making for some time.

Everything comes down to Governor Bailey's vote in March. We saw the same thing last November/December. He doesn't give too much away in his paragraph in the minutes, but we sense that if the data follows recent trends – higher unemployment/falling payrolls, slower wage growth – then he will swing behind a cut next month. He is visibly more persuaded by the arguments made by those voting for earlier easing.

Our view is that headline inflation [should fall to 1.8% in April](#) and stay around 2% through the spring/summer. That's slightly below BoE forecasts. Though much of that drop is likely to come in April, we expect some progress in the data available before the March meeting. That might help convince some of the hawks, notably Catherine Mann, who is visibly becoming more favourable towards further cuts, to vote for further easing. The concerns about inflation expectations being elevated become less problematic if headline inflation itself is lower.

Our base case is unchanged. We expect cuts in March and June, taking rates down to 3.25%.

Dovish decision adds to political pressure on pound

Today's dovish communication from the BoE has added to a softer pound – already under pressure from local politics. Short-dated UK rates have dropped to a new low for the move today, where 1-month GBP OIS priced six months forward now sits at just 3.32%, the lowest since the summer of 2022. The prospect of the BoE playing catch-up with the ECB's 200bp easing cycle – the BoE has cut only 150bp so far – should continue to provide support to EUR/GBP. We continue to see it trading up to 0.88 over the coming months as both softer UK short-dated yields and local politics weigh.

In terms of politics, pressure is building on PM Keir Starmer to step down. The replacement ticket of Angela Rayner as PM and Wes Streeting as Chancellor would initially be seen as a shift to the left and add to the fiscal risk premium demanded in the pound. We appreciate that another 50bp of BoE easing can provide some insulation to the gilt market during a challenging period for UK politics, yet we expect political uncertainty to dominate. And we have an EUR/GBP forecast at 0.90 by year-end as some continued euro strength wins through on our expected rebound in European growth.

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