Bank of England hikes rates again but committee grows more divided

The Bank of England has hiked for the fourth time, though there are further signs that policymakers believe market rate hike expectations have gone too far. We expect another 25bp hike in June and potentially also August, before the committee presses the pause button

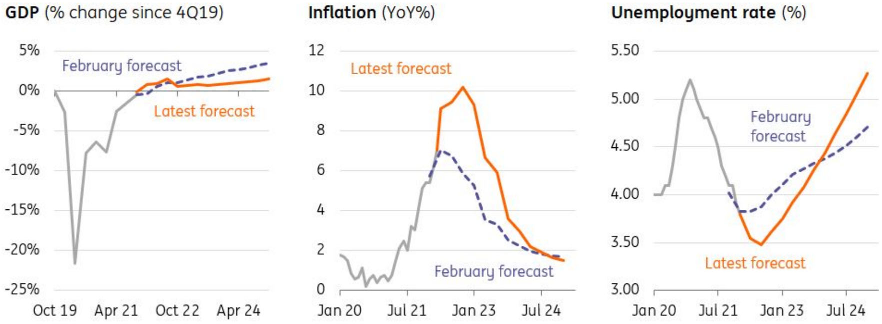
Governor of the Bank of England Andrew Bailey, London

Source: Shutterstock

The Bank of England has hiked rates by a further 25 basis points, taking Bank Rate to 1%. No surprises there, but financial markets went into the meeting pricing further hikes at every remaining meeting this year. Look closely, and there are clear hints that the overall committee thinks that is going to be too aggressive.

The Bank's new forecasts – while pointing to double-digit inflation later this year – show CPI below target at the three-year horizon. Growth is set to fall by almost one percentage point in the fourth quarter, and depressingly the Bank's forecasts show that GDP is projected to be only half a percentage point bigger at the end of 2024 than it is now. Unemployment, while set to fall further this year, is set to rise by almost two percentage points by the end of the forecast period.

How the BoE's new forecasts compare with February



Source: Bank of England, ING

Remember all of this is based on the latest swaps curve – or market rate hike expectations – and can be read as a sign that the committee thinks investors are pricing in too much tightening over the next year. The accompanying minutes even tell us that two rate-setters saw no further need to continue signalling that additional 'modest tightening' is needed. Presumably, we should expect those two to vote for no change in rates when the June meeting comes around.

That's not to say the Bank is quite done with its rate hike cycle. Policymakers are clearly divided, and three voters opted for a 50bp move this time. It's clear that the committee is divided on just how concerned it should be about the tight jobs market, faster wage growth and elevated consumer inflation expectations. Helpfully, the Bank also publishes projections which show us what they'd expect to happen if rates stayed flat at 1% for the next few years – and these suggest inflation would end up a little above target if no further action was taken.

In short, expect more hikes, but not as many as markets expect. We'd already pencilled in another rate rise for June and we suspect on the basis of today's split decision, another one could follow in August. But the new forecasts, taken together with the increasing division among committee members, suggest the Bank is getting closer to a pause in its tightening cycle.

Finally, and unsurprisingly, the Bank has kicked the can down the road on prospects for actively selling bonds. Policymakers had previously said they would consider selling gilts once Bank Rate hit 1%, but we wrote recently that market conditions are not conducive to starting right now. The committee has tasked staff with working on the strategy, and it will report back on this in August. If market conditions allow, we suspect this could begin at some point later this year.

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