

## Bank of England hints that the first rate cut is drawing nearer

The Bank of England kept rates on hold this month, but comments in the statement and minutes suggest officials are getting closer to cutting interest rates despite some recent unwelcome services inflation figures



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

*Catch James' latest CNBC interview [here](#), where he discusses today's Bank of England decision*

### The latest post-meeting statement is slightly dovish

The Bank of England has voted 7-2 in favour of keeping rates at 5.25% for another month. No surprises there, but in the limited comments we got from the Bank today, this is a statement that reads more dovish than we suspect many investors might have expected.

Admittedly, markets are relatively unmoved on the decision – the probability of an August rate cut has inched up from 40% to 60% in the minutes since. The fact that there wasn't a larger repricing is probably because the Bank didn't change its forward guidance, which has for some time

signalled that rates need to stay restrictive for an "extended period". Had that changed, then it would have been a pretty clear signal that an August rate cut was on the cards.

But elsewhere, the narrative is more interesting. A key question for today's meeting was what the Bank made of the recent upside surprises to services inflation, which at 5.7% is running half a percentage point above the BoE's forecast from early-May. Rather revealingly, the statement puts this down to volatility related to annual price hikes towards the start of the financial year. And that suggests the Bank isn't drawing too many conclusions about the underlying trend from the most recent data. We tend to agree, and remember we saw a very similar pattern in services inflation this time last year. Progress should resume over the coming months.

Clearly not everyone on the committee agrees, and the view of the three hawkish external committee members is well known. They're unlikely to join the camp voting for rate cuts any time soon. But buried away in the minutes is confirmation that this isn't necessarily the majority view among those voting to keep rates on hold this month. The minutes note that for some members, the surprises on services inflation "did not alter significantly the disinflationary trajectory".

## An August rate cut is our base case

The bottom line here is that the Bank isn't pre-committing to anything ahead of the summer. That's not surprising. The Bank has generally been more reluctant than the European Central Bank to pre-commit to a course of action ahead of time.

But it's clear the committee is getting closer to the point of cutting rates. Assuming the next inflation report in mid-July doesn't contain any nasty surprises, we still think the Bank will vote for a rate cut in August. Today's meeting suggests that the BoE is in a similar mindset to the ECB, where it is getting more confident in its inflation forecasting ability and therefore feels able to look through temporary gyrations in underlying CPI data.

Bank officials are heavily constrained in what they can say during the current election campaign. But Governor Andrew Bailey said in May that the Bank may end up cutting rates further than markets were pricing at the time, a rare signal aimed at investors. Watch out for any speeches getting put into the calendar just after the UK election on 4 July, where officials like Bailey or his deputy governors/chief economist might look to firm up expectations for a summer cut.

## The impact on sterling

News that the views of some of those voting for unchanged rates today were 'finely balanced' was enough to generate a little bullish steepening of the Gilt curve and a modestly weaker pound. Bigger moves here probably required some more substantial shifts in the language of the statement or the voting pattern – which was not the case today.

As above, we read the minutes as slightly bearish for the pound as it raises expectations we could hear from the BoE dovish elements once the 4 July general election has passed. Given both the Bank of England and the Swiss National Bank earlier today noted the impact of European politics on financial markets, it is probably a little dangerous to expect too much strength in EUR/GBP until we have seen the outcome of the French election later this month. Instead, the risks of sterling weakness emerging over coming months should largely be witnessed in GBP/USD, which we expect to trade back under 1.25.

## Authors

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.