Bank of England inches one step closer to a summer rate cut

The Bank of England is undoubtedly turning more optimistic, but it's keeping its options open amid some uncertainty surrounding the near-term inflation numbers. We still narrowly expect the first rate cut in August

Bank of England Governor, Andrew Bailey

The Bank of England has kept rates on hold, but that's soon to change

The Bank of England is getting very close to its first rate cut. That much is clear from the latest policy statement which, while keeping rates on hold at 5.25%, has a distinctly more optimistic flair. It echoes recent comments from Governor Andrew Bailey, who has been hammering home the message that the UK's inflation outlook is quite different to the US.

What this statement doesn't do, however, is come down clearly in favour of a rate cut at the next meeting in June. The key yardstick was whether the Bank changed its forward guidance, and despite that more dovish spin elsewhere, those crucial sentences remained unchanged. The BoE is still telling us that rates need to stay restrictive for an extended period of time.

Admittedly officials have been clear that this statement can still be the case after the first few rate cuts. That's unquestionably true, but words matter – and we think we'd have seen a more wholesale rewrite of those sentences if the Bank was trying to bake in expectations for a June move.

That's not to say it can't happen. Bailey has just said in a news conference that a June rate cut is '*neither ruled out, nor fait accompli*'. We'll get two more inflation readings between now and then, which have the potential to be quite volatile. April is the month when much of the service-sector basket is subject to annual price hikes, and experience from this time last year shows this can be unpredictable. Understandably the Bank isn't wanting to second guess those services CPI figures, which we think could come in slightly higher than the Bank is forecasting in the very near-term.

We're still leaning slightly more towards an August start date for rate cuts, though it's a close call. What isn't in doubt, is that the Bank is comfortable with moving ahead of the Fed. A look at the new forecasts shows the all-important inflation projection for two years' time bang on 2%. That forecast is premised on market rate expectations, and what that tells us – at least implicitly – is that the Bank isn't uncomfortable with current market pricing for two rate cuts this year.

Sterling slightly weaker as extra voter opts for rate cut

Markets have reacted with a small move lower in short-dated rates, and perhaps that's because we saw an extra voter – Dave Ramsden – join Swati Dhingra in voting for an immediate cut. Most economists, ourselves included, thought we'd get another 8-1 vote to keep rates on hold. Though in truth, given Ramsden recently said he thought the risks on inflation were tilted towards the downside, that's maybe not too surprising. And as we noted in our preview, we shouldn't read too much into the vote split anyway.

History has shown us that the five internal committee members (of which Ramsden is one) tend to move as a pack. And indeed, it's extremely rare to see one of their number dissenting from the overall decision. In other words, it would be a mistake to look at the 7-2 vote today and conclude that it can't flip to a comfortable majority in favour of a cut at either the June or August meeting.

The bottom line: the Bank is inching towards a rate cut but it is keeping its options open. The June vs August debate will be largely resolved when we get those April inflation figures in a couple of weeks' time. For now, we're sticking with August as our base case.

Author

James Smith
Developed Markets Economist, UK
james.smith@ing.com