

Bank of England keeps May rate hike firmly in play

With wage growth continuing to push higher, the Bank of England has kept the door wide open to a rate hike in May



Source: Bank of England

The Bank of England has kept policy on hold, although two of the hawks – Saunders and McCafferty – opted to vote for an immediate rate hike. Here are our four key takeaways from the March meeting:

1 The Bank is still gearing up for a May rate hike

All in all, the statement from the Bank of England's latest meeting keeps a May rate hike firmly on the table. The Bank has said "ongoing tightening" will likely "be appropriate", although interestingly policymakers have opted against sending a stronger/more explicit rate hike signal.

Back in September last year, with markets still sceptical about the prospect of any future tightening, the Bank virtually committed itself to a November rate rise by saying some withdrawal of stimulus would be needed "over coming months".

This time, things are a little different. Markets are more-or-less on board with the idea of a near-term rate hike, so policymakers likely saw little need to tie their hands unnecessarily. Rate expectations are a touch lower after today's announcement, perhaps suggesting markets were looking for stronger hints.

2 No acknowledgement of the Brexit breakthrough – but perhaps not surprising

The BoE hasn't commented on this week's Brexit breakthrough. Instead, it continued to emphasise the overall process as the "most significant influence" on uncertainty.

However, the lack of commentary may be explained by the fact that a formal vote on the transition deal hasn't happened yet. That's not to say this week's deal isn't good news for the Bank. Governor Carney has been particularly vocal in the past about a need for a post-Brexit transition.

Hypothetically, if the transition period had already been officially voted on by the EU commission, we may have seen the BoE echo its comments from December when they cited progress in negotiations as "likely to support household and corporate confidence".

3 Policymakers continue to be pleased by wage growth progress

The Bank has made it pretty clear at recent meetings that wage growth will be a deciding factor in its decisions about impending rate hikes.

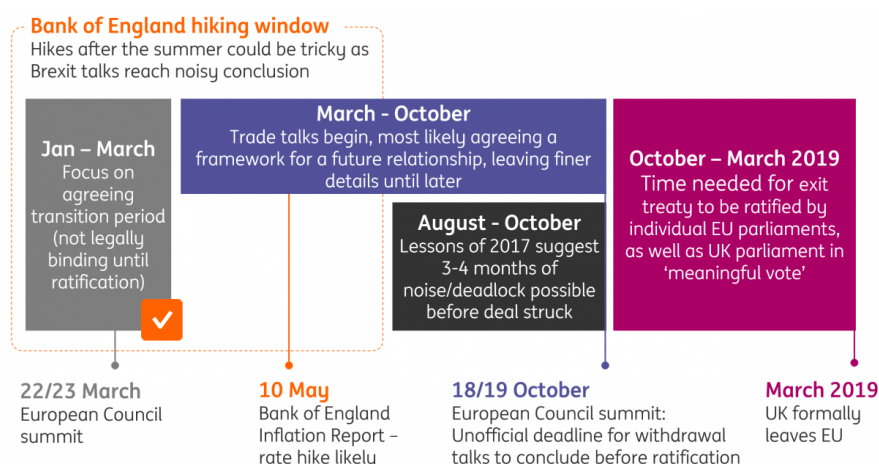
The recent energy we've seen in the earnings numbers has given policymakers "increased confidence" that wage growth will continue to rise to "target-consistent" rates.

4 Still keeping its cards close to its chest

By alluding to the need for "ongoing tightening", policymakers have kept the door open to a second rate hike in 2018. We certainly wouldn't rule it out, and markets are increasingly coming around to this view – there's now not far off two hikes priced in for this year.

But if Brexit talks – which are due to be wrapped up in October – get particularly noisy, then this could get in the way of a second rate rise in the autumn.

2018 Brexit timeline



Source: European Commission, ING

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