

Bank of England keeps rates at 4% as further cuts hang in the balance

The Bank of England is still biased towards cutting rates further and we expect two to three further 25bp moves by next summer. But whether we get another cut this year is uncertain. We still narrowly favour a November cut, assuming there's better news in the next set of inflation numbers



The Bank of England in London

There's very little in the latest Bank of England decision that's likely to rock the boat. Rates are on hold at 4%, as widely expected, with only two well-known doves voting for a 25bp cut. The Bank's long-standing forward guidance – which simply says further rate cuts will be gradual and cautious – is unchanged. And the announcement on quantitative tightening – the reduction in the Bank's holdings of UK government bonds – is set at £70bn for the next 12 months, which was the consensus among investors. That represents a more gradual pace of reduction than we've seen over the past few years, as bank reserves get closer to their perceived equilibrium level.

None of that is too surprising, given that not much has changed since the August meeting that would have warranted a more major shift in stance today. The data we've had on the jobs market and inflation has largely been in-line with the Bank's projections.

But August's decision made it abundantly clear that the Bank is growing more reticent to cut rates further from here. Some have gone as far as to say the easing cycle is over.

We disagree with that, even if the timing of future cuts looks less clear. At 4%, Bank Rate is above neutral, and we think there are two to three further cuts to come.

Services inflation should move lower from spring 2026, partly on account of much lower rental growth. Wage growth should fall much closer to 3.5% by year-end, judging by recent pay surveys. And importantly, the late-November budget is likely to raise taxes more significantly than it lifts spending, adding an extra headwind for 2026.

Then there's the jobs market, which remains in a precarious position, even if recent data is still consistent with a gradual cooling rather than a more recession-like outcome. Just as we're hearing from the Federal Reserve, we think the risks to the jobs market are clearly to the downside.

All of that argues in favour of further cuts, but will they come this year? We do expect the next inflation report, which comes ahead of November's meeting, to undershoot the BoE's forecasts slightly on services. Then again, the Budget falls a few weeks after the 6 November decision, which means the Bank may not fully bake it into its decision-making until it updates its forecasts again in February.

We're still narrowly favouring one more cut this year, though that's a low conviction view. November looks fairly 50:50 to us right now and the data will decide one way or the other.

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