

Bank of England leaves rates unchanged

In a 7-2 vote the BOE kept rates unchanged but comments indicate ongoing concern over market complacency



The Bank of England has left interest rates unchanged yet again, as widely expected. The vote was 7-2 with Ian McCafferty and Michael Saunders wanting to see an immediate 25bp hike, thereby reversing the emergency policy action in the wake of last year's Brexit vote.

There has been a lot of speculation over the possibility that it could have gone 6-3 with BOE chief economist Andy Haldane finally following through with his threat to hike rates, particularly with headline inflation back at 2.9%.

However, the lack of domestically generated inflation pressures, as highlighted by yesterday's wage growth numbers, and some disappointing activity data likely influenced his decision.

Nonetheless, the BOE continue to warn that they feel the market is too complacent on the prospect of higher interest rates. Markets had been barely pricing in a 1 in four chance of a rate hike this year, but the Bank unanimously thinks that if the economy proceeds as they forecast in August "monetary policy could need to be tightened to a somewhat greater extent than current market expectations."

While we certainly don't rule out the possibility that the BOE reverses last August's

emergency rate cut quite soon, economic uncertainty relating to Brexit and the risks this poses for activity means that such action would not be the start of a new tightening cycle. Moreover, if there is concrete action on a meaningful Brexit transitional deal this would help boost sterling and could dampen the medium term inflation threat. As such, the prospect of a series of rate hikes seems remote.

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