

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.

Author

James Knightley

Chief International Economist, US

james.knightley@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>.