Bank of England pushes back on calls for early 2024 rate cuts

Unlike the Federal Reserve, the Bank of England is clearly reluctant to endorse market pricing for rate cuts in 2024. The Bank has reiterated that rates need to stay restrictive for quite some time, but markets are probably right to expect cuts by next summer

Bank of England Governor, Andrew Bailey

Bank of England keeps rates on hold

The Bank of England has kept rates on hold at its final meeting of 2023. But unlike the Federal Reserve last night, the UK's central bank is clearly much more reluctant to do or say anything that might be seen as an endorsement of market rate cut expectations. Going into the meeting, markets were pricing upwards of four rate cuts in 2024, starting from May.

We only get a statement and set of minutes today, so no press conference or new forecasts. That means there were only ever going to be limited avenues for the BoE to push back on market expectations. Even so, there's nothing particularly dovish about today's decision. We still have three out of the nine committee members voting for an immediate rate hike, and that's a mirror image of the November decision. There was a risk that one or two of those hawks decided to throw in the towel and join the crowd voting for no change. The immediate market reaction – stronger pound and higher two-year bond yields – suggests markets were positioned more in this direction going into the meeting.

The Bank also opted against changing any of its forward guidance – that is, statements about the future direction of policy. Importantly, it repeated that rates need to "be restrictive for an extended period of time". That's not surprising, but it is another signal that the Bank isn't totally comfortable with market rate cut pricing. Governor Bailey made this fairly clear in comments he made earlier this month.

Rate cuts are coming in 2024

However, markets are right to be thinking about a series of rate cuts next year. The Bank itself acknowledged in the latest statement that both private-sector wage growth and services inflation – both of which are labelled as key metrics for the BoE – have come down more than it expected. While services inflation is likely to be sticky in the 6% area into early next year, we expect both this and wage growth to reach the 4% region next summer.

We think that will be a catalyst for rate cuts to begin. Our current forecast is for an August rate cut, but if markets prove right in that the Fed and ECB will have started cutting in either March or April, we wouldn't rule out the BoE moving earlier too. Market pricing for four rate cuts next year seems about right.

Author

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