Bank of England stays on hold, but a dovish front is building

Bank of England rates were maintained at 4.75% today, in line with expectations. However, the 6-3 vote split sent a moderately dovish signal to markets, prompting some dovish repricing and a weaker pound. We remain more dovish than market pricing for 2025

Bank of England Governor Andrew Bailey

The Bank of England kept the Bank Rate at 4.75% today, as widely expected. Forward guidance remained very cautious and data-dependent, and the Monetary Policy Committee is explicitly refusing to commit to the size and timing of rate cuts in 2025. This follows the latest slew of data, which showed an acceleration in wage growth and sticky services inflation.

What slightly surprised markets was the close MPC vote split: six in favour of a hold, three for a 25bp cut. Our expectations – and probably that of the market – was that only arch-dove Swati Dhingra would have voted for a cut, but she was instead joined by Dave Ramsden and Alan Taylor. The latter is an external member whose term only started in September 2024.

According to the BoE's statement, the three dissenters judged the current policy stance as too restrictive, and it “risked deviating unsustainably from the 2% inflation target and opening an unduly large output gap".

Markets saw the closer vote margin as modestly dovish and the two-year GBP swap curve shifted around 5bp lower after the announcement. Markets are now pricing in over a 50% (17bp) probability of a cut at the next meeting on 6 February.

The apparent growing dovish front within the MPC in spite of the latest hawkish wage data potentially suggests a greater focus on slowing activity. That reinforces our dovish view on the Bank of England for next year – we expect 150bp of cuts, against market expectations for around 55bp.

In the FX market, the pound traded on the weak side following the BoE's hold, with Cable erasing daily gains and moving back to 1.2600 at the time of writing. We expect any GBP weakness in the near term to be mostly channelled via GBP/USD, as EUR/GBP may still struggle to find its way back above 0.8300 given the euro's domestic bearish factors.

Author

Francesco Pesole
FX Strategist
francesco.pesole@ing.com