Bank of England sticks to the script and keeps rates on hold

The Bank of England has been careful not to endorse the idea of a near-term rate cut in its latest policy statement. We think it will want to see April and May's inflation data before doing anything, and that pitches June as the earliest date for the first rate cut. We're sticking to our call for the first move in August, though

Bank of England Governor, Andrew Bailey

The Bank keeps rates on hold as the hawks throw in the towel

The Bank of England has kept rates on hold at 5.25% and more importantly, it's keeping its so-called forward guidance unchanged. That guidance, which has stayed broadly the same for a few months now, says that rates need to stay sufficiently restrictive for an extended period of time.

With neither a press conference nor new forecasts available at this meeting, there's not a huge amount to chew over here, but two things stand out to us.

The first thing is that the two hawkish members of the committee – Catherine Mann and Jonathan Haskel – have finally dropped their vote for a rate hike, opting instead to join the consensus vote for no change. At the margin, you could say that is slightly dovish, given most economists had expected at least one of the two hawks to continue voting for hikes, though in truth, it shouldn't be hugely surprising nor consequential.

The more interesting question on the vote split is when we start to see other committee members joining Swati Dhingra in voting for an immediate rate cut, and that will be a useful thing to watch at the May meeting. It's worth remembering that Dhingra has regularly been a dovish outlier relative to other committee members since she joined the committee a couple of years ago. Indeed what we've tended to see in the past is that the "core" of the committee tends to move together, so the vote split isn't always the best leading indicator of future moves.

The second interesting thing is buried away in the minutes, and it says that rates can still be restrictive even if we start to get rate cuts. You could say that's a statement of the obvious, with rates at 5% and well above most reasonable estimates of the neutral rate. It's also not the first time we've heard this from BoE officials over recent weeks. However – and at risk of reading too much into not a lot – this is perhaps a tacit acknowledgement that rate cuts aren't necessarily too far into the future.

We expect the first rate cut in August

So what next? The fact that the forward guidance has stayed unchanged today suggests markets are right to put a relatively small probability on a May rate cut. Remember that April's inflation data, due after the May meeting, will be hugely consequential because this is when a large portion of the services basket is affected by annual contract-linked price rises. Last year this process saw services inflation come in way higher than everyone expected, and it adds an air of unpredictability to the CPI data through the second quarter.

The Bank will have more clarity by June's meeting, and we think this is realistically the first 'live' meeting for a rate cut. We'll be watching May's policy statement for signs that the forward guidance is tweaked or watered down, which would be read by markets as a clear sign that rate cuts are imminent.

For now, we are sticking to our base case of an August rate cut on the basis that the BoE will have another month's worth of data and new forecasts available. In our view we'd probably need to see a meaningful downward surprise relative to the BoE's services inflation and wage growth forecasts during April/May to unlock an earlier June cut. We're sort of splitting hairs here though, and the bigger picture is that once rate cuts begin, we expect further cuts at each meeting this year. That means 100bp of easing in total during 2024.

Sterling softens as the hawks stand down

Sterling interest rates have dropped and the currency sold off on news that the two BoE hawks have now opted for unchanged rates and a new script is dangled that policy can remain restrictive even if the policy rate is modestly cut. Bullish steepening of yield curves is normally negative for a currency, and sterling is no exception today.

As the case builds over the coming months for the start of the BoE easing cycle, we would expect EUR/GBP to start drifting a little higher and major support at 0.8500 to be cemented as a medium-term floor. The dominant theme of a lower dollar over coming months, however, should mean that GBP/USD can stay relatively well bid. Yet our forecast profile does not see GBP/USD trading substantially over 1.30 over the next twelve to eighteen months.

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