

## BoE keeps options open despite Brexit breakthrough

The Bank of England acknowledges recent progress in Brexit talks, but keeps its cards close to its chest on the possible timing of a future hike



Source: Bank of England

As the dust settles on the Bank of England's historic rate hike in November, the committee unanimously opted to keep policy unchanged this time. But the statement did come with some intriguing clues on the Bank's thoughts on Brexit.

Back in November, it caught a few people off-guard by saying there are "considerable risks to the outlook". This time, that phrase has disappeared and instead replaced by an acknowledgement of the recent positive steps made in the negotiations. Bank officials and Governor Carney, in particular, have been vocal about the importance of a transition period, and the latest set of minutes note that a swift announcement of this in the new year would "reduce the likelihood of a disorderly exit".

The question now is whether this is enough for the Bank to hike again in 2018. Well, both in this latest statement and back in November, the BoE effectively told markets that it would be comfortable with a follow-up hike next year. But we still think this is far from a done deal, at least for now.

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## *We still think another rate hike is far from a done deal*

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While the announcement of a transition would help unlock some short/medium-term investment, there are still a number of "ifs". For example, it's not clear whether a 2-3 year transition will be long enough for some firms to adjust, given the complexity of many modern supply chains. And without a concrete idea of the trading environment the UK will transition into in 2021 or 2022, companies are likely to remain cautious when it comes to longer-term investment, even after a transition plan is announced.

Growth is also a key consideration. While the Bank has rationalised this year's sluggish momentum in the context of a lower economic 'speed limit', the persistent consumer slowdown will still require policymakers to tread carefully when tightening policy further.

Perhaps with all of this in mind, the Bank has kept its cards fairly close to its chest - and there were no hints that market rate expectations are too low nor that rates may need to rise over "coming months". In the minutes, policymakers noted they would perform a complete assessment of Brexit progress in February.

But if the Bank does intend to hike again in February, or more likely, May, then officials still have some work to do to get markets on the same page. With the first hike priced in for November, markets will keep a close eye on speeches and interviews as we head into 2018.

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