

Dovish Bank of England follows Fed and slows rate hike pace

The Bank of England's (BoE's) 50bp rate hike decision was coupled with signs that the Committee is prepared to move more cautiously over the coming months. We expect a final 50bp hike in the first quarter – which may ultimately be delivered in smaller 25bp chunks – although we think the UK will be slower to turn to rate cuts than the US



Andrew Bailey,
governor of the Bank of
England

Fed caution has given the Bank of England cover to slow rate hikes too

The Bank of England's inaugural 75bp rate hike back in November came accompanied by a strong signal that it was likely to be a one-off move. Since then, the Federal Reserve's decision to [slow the pace of rate hikes](#) in the US, and the associated appreciation in the trade-weighted pound, has given the Bank of England the cover it needs to do the same. In a move that will come as little surprise, the Bank hiked rates by half a percentage point to 3.5% on Thursday.

But the new policy statement – that this time isn't coupled with either a press conference or new forecasts – contains some interestingly dovish signals. While the Committee is clearly divided, and

the meeting saw another three-way vote-split, only one policymaker voted for a more aggressive 75bp hike at Thursday's meeting, while two voted for no change at all. While it's hard to say what the consensus for this would have been, one or two more voters in the 75bp camp, and the doves opting for a 25bp hike over no change, would have seemed more likely.

We expect Bank Rate to peak at 4% in the new year

Admittedly the Monetary Policy Committee is no longer warning investors that they're pricing too much tightening for coming months, though perhaps this isn't hugely surprising. Market rates have fallen markedly since the political drama and LDI (Liability Driven Investing) pensions issues in October. Markets expect Bank Rate to peak at roughly 4.5% next summer, and while that's probably still a tad on the high side, this mispricing is much less significant than it was.

The Bank is nevertheless still warning that it could act 'forcefully' if required, though curiously the meeting minutes suggest that a 50bp rate hike meets this definition. Not only does that suggest there's a high bar for returning to 75bp rate hike increments, but at a stretch you could also say it lays the groundwork for a further slowdown in the pace of hikes to 25bp increments from the new year.

Our view: 50bp in February and done

For now, our best guess is the Committee implements another 50bp hike in February before calling it a day. The hawks can continue to point to 6% wage growth and the fact that core services inflation is running higher than expected in November. But today's meeting is a further demonstration of the delicate balancing act facing the BoE, between mitigating the risks of a tight jobs market on the one hand against mounting concerns about the housing market and the health of corporate borrowers on the other.

We expect Bank Rate to peak at 4% in the new year, although we aren't yet convinced a rate cut will be as quick to follow as in the US (where we expect cuts shortly after the summer).

Author

James Smith

Developed Markets Economist

james.smith@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>.