

UK inflation set to stay above 9% throughout 2022

UK inflation remains above 9% and the recent rise in energy costs will probably help the headline rate go slightly into double-digits from October. The chances of a 50bp Bank of England rate hike in August are rising, though we think there's only so much further it can hike in the current fragile growth environment



UK inflation has edged a touch higher to 9.1%, helped by another chunky rise in food prices, along with another 2% increase in fuel costs.

We'd previously tentatively said that inflation looked like it had peaked – or at least wouldn't go more than another few tenths of a percentage point higher. That's probably true in the near term, and we expect to see the headline rate inch only slightly higher over the next couple of months. That's linked to another circa 10% rise in petrol/diesel prices in June. However, when you factor in the recent leg higher in natural gas, coupled with broader price pressure elsewhere, we'd now expect to see headline CPI go a little above 10% in October. That's when Ofgem will next increase the household energy cap, and current futures pricing suggests that could go higher by another 45-50% - though in practice, government support payments mean that will be lower, especially for lower-income households.

9.1%

UK inflation

(YoY%)

As expected

With the prospect of inflation staying above 9% throughout this year, it's perhaps unsurprising that the Bank of England hawks are becoming more vocal. Catherine Mann, who was among those voting for a 50bp hike last week, has argued the Bank should move aggressively to protect the value of sterling. Today's inflation data perhaps bolsters the camp looking for another 25bp, in that for a second consecutive month the numbers have come in more-or-less in line with expectations, ending a relentless run of above-consensus numbers.

Nevertheless, with the Fed highly likely to follow through with a second consecutive 75bp hike in July, we think there's a growing chance that the BoE follows suit with its first 50bp move – especially given that it's now fully priced.

But in practice, there's only so far we think the BoE can hike in an environment of fragile growth, and an inflation backdrop that's largely out of the Bank's control. By October energy will be contributing over five percentage points to the overall headline rate.

While we see scope for a 50bp hike in August, we still find it hard to see the central bank taking rates anywhere near as far as the Fed. We're pencilling in a further 75bp of tightening in total.

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