

Why a hawkish BoE is still unlikely to hike before Brexit

Despite some hawkish undertones in today's statement, we still don't expect a rate hike before Brexit talks conclude in 2019.



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Today's major tail risk was that MPC member Saunders could join Kristin Forbes in voting for an immediate 25bp rate hike. In the event, the committee voted 7-1 (note the MPC is a voter down at present) to keep rates unchanged.

Unsurprisingly, there were no earth shattering changes to growth or inflation forecasts, with the possible exception of the 2017 CPI forecast (which was raised from 2.4% to 2.7%). After all, the General Election period is not an ideal time to make major alterations.

But the overall tone of the statement was fairly upbeat, and the MPC kept its reference to having limited tolerance to above-target inflation. Importantly, they also note that monetary policy **“could need to be tightened by a somewhat greater extent”** than the path implied by markets.

That all sounds fairly hawkish, but we still aren't convinced that the Bank will look to raise rates any time soon. We suspect that the MPC will continue to “look through” the spike in CPI, and focus instead on the adverse effect it is having on consumers. The uncertainty surrounding the UK's

future relationship with Europe is still also likely to weigh on investment and hiring for the foreseeable future.

Interestingly, in slight contradiction to its other comments, the Bank does acknowledge that they must balance the trade-off between returning inflation to target quickly and supporting jobs/activity – and that this trade-off is present “through most of the forecast period”.

This suggests to us that there is still a divide in views between the hawkish external MPC voters, and the more cautious Governor/Deputy Governors. It's also worth remembering that Kristin Forbes, who voted for the rate hike today, leaves the committee in June.

That will make it harder to form a majority in favour of lifting rates, and we continue to expect policy to remain on hold until Brexit talks conclude in 2019

2.7% BoE 2017 inflation forecast
Previously 2.4%

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