

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.



Source: Shutterstock

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%

Author

James Smith

Developed Markets Economist, UK

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>.