



Bank of England holds rates ahead of challenging UK budget

The November meeting of the Bank of England's Monetary Policy Committee (MPC) saw the central bank maintain the Bank Rate at 4.00%. This was the second consecutive meeting that the BoE kept rates unchanged and was in line with market expectations. However, there was no unanimity within the MPC on its policy decision. The voting breakdown showed a 5:4 split among the MPC, with four members in favour of a 25bps rate cut. The five voting to hold, erred on the side of caution, with the upcoming Budget on November 26th likely front and centre. Within the majority of five, four members "placed greater emphasis on risks" of persistence in inflation. The other - Governor Bailey - judged that medium term inflation risks had become more "balanced" but there was "value in waiting for further evidence".

Examining the text of the meeting statement, minutes and Governor Bailey's remarks during the press conference, the prospect of a rate cut at the final meeting of the year on December 17th/18th is now on the cards. There are already four members voting for it, so it only takes one more vote to swing it in favour of a rate cut. In this regard, of the five voting for no change this month, the minutes showed that Governor Bailey was of the view that the upside risk to inflation had become "less pressing" and he sees "further policy easing to come if disinflation becomes more clearly established". He stated that "rather than cutting now" he would prefer to wait for more data/evidence of the disinflation trend. He repeated this view during the press conference and explicitly stated that, by the time of the December MPC meeting, more data will be available, as well as the fact that the November Budget will have occurred.

The key events from here will be incoming inflation data, with the BoE having the benefit of two monthly updates before their next meeting in December. In September, core inflation inched lower to 3.5%, down from 3.7% in July. Services inflation has also decelerated, although it remains at a very high level, printing at 4.7% in August and September. This suggest UK inflation may have peaked, but extra information is required for the MPC to pull the trigger on further rate cuts.

On the fiscal policy side, a speech by Chancellor Reeves last week has teed up markets and the electorate for some difficult measures in the upcoming Budget, likely in the form of income tax rises. A contraction in fiscal policy would likely dampen domestic demand and inflation, while the Government has also hinted at specific measures to reduce prices, particularly for household energy bills. The promise of these measures was not enough for the BoE to act at the November meeting, albeit as referenced above a rate cut is now likely in December.

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