Economist's Weekly Market View

Wednesday, October 9st, 2024

Bank of England's muddled messaging

Following relatively cautious guidance just two weeks ago, Bank of England (BoE) Governor Bailey's recent press comments have weighed on sterling, and drove a softening in near-term UK rate expectations. In an interview with the Guardian last week, Bailey stated that the Bank could be "a bit more aggressive" in cutting interest rates provided the news on inflation continued to be good. This represents something of a volte-face from his remarks following the BoE meeting on September 19th. To add to the uncertainty, a day after Bailey's comments, BoE Chief Economist Huw Pill struck a cautious tone in a speech stating it was "important to guard against the risk of cutting rates either too far or too fast".

In a recent article following the Fed and BoE September meetings, I noted that the sharp Fed pivot of a 50bps cut raised questions for the other major central banks. In particular, UK rates have usually moved in lock-step with US rates in prior cycles. While the BoE cut by 25bps in August, it chose to hold in September, accompanied by a cautious press statement from the Governor, stating "it's vital that inflation stays low, so we need to be careful not to cut too fast or by too much". This statement chimed with recent inflation and wage data in the UK which still point to elevated price pressures. However, I also stated a more conservative approach may put the BoE at odds with the Fed if it continues with its easing cycle at an accelerated pace in the coming months. It appears Bailey has now duly delivered the pivot, perhaps guiding the market towards a more aggressive cycle of cuts in line with those priced in for the Fed and ECB. A faster pace of rate cuts from the BoE may well hurt sterling, given the latest FX positioning data show the market is stretched long the pound.

The comments by the Governor adds to the instances of muddled messaging by the BoE in recent years, and begs the question as to what has shifted his outlook in such short order. In the intervening two weeks between his contradictory comments, the macro-economic data releases have printed a touch below expectations, but remain consistent with growth. Furthermore, key GDP, labour force and inflation data are due for release in the coming fortnight. On the fiscal side, the Governor may also now be party to, and factoring in a more contractionary Budget than expected on October 30th by the new Labour Government. Either way, the comments from Bailey and Pill add further uncertainty to the near term outlook for UK rates and sterling.

Turning to the week ahead, the main release of note will be the September reading of US CPI inflation. In recent months, headline inflation has fallen sharply, printing below 3% in July before falling to 2.5% in August. The consensus is for inflation to inch lower in September to 2.3%.

David MacNamara
Chief Economist, AIB

AIB Customer Treasury Services
DUBLIN / CORK
aib.ie/fxcentre

Customer Treasury Services NI
BELFAST
aibni.co.uk/fxcentre

Customer Treasury Services GB
LONDON
aibgb.co.uk/fxcentre

Economic Research Unit
AIBeconomics.unit@aib.ie
Tel: 353-1-6600311