



Bank of England on the cusp of rate cuts, amidst brightening UK outlook

Last week's Bank of England meeting was an important staging post towards a first UK rate cut this summer. To recap, the Bank published its monetary policy statement and quarterly Monetary Policy Report. The vote split on its rate-setting committee was 7:2 in favour of no change to rates, but this still represented a dovish shift, with two MPC members now voting for a rate cut compared to just one at its previous meeting in March. Indeed, Deputy Governor Dave Ramsden's fresh dissenting vote for 25 basis point (bps) cut was noteworthy, given his senior role in which his voting record is usually in lockstep with Governor Andrew Bailey.

Meanwhile, Governor Bailey struck a dovish tone at his press conference, as he outlined stronger UK growth forecasts compared to the last projection in February, alongside a lower inflation outlook. He also noted that there would likely be a need for rate cuts over the coming quarters and that these could be to a greater degree than currently priced into market rates.

UK interest rate futures softened on the back of the release, with markets pricing in nearly 60bps of cuts by end-2024 compared to 50bps before the statement. Stronger-than-expected GDP data for the UK appear to have done little to dampen this move in rate expectations, with the focus now on inflation data in April and May ahead of the next Bank of England meeting in June.

On the UK GDP data, the out-turn for Q1 2024 was stronger than expected, with GDP growing by 0.6% on the quarter, and annual growth turning positive at +0.2%, up from -0.2% in Q4 2023. At a sectoral level, services were the key driver of the upturn in growth, supported by a recovery in consumer spending in early 2024. This had been flagged in recent consumer surveys, and this momentum appears to have continued into Q2 2023, with a growing sense that the UK economy has turned a corner of late.



While stronger GDP data might give the BOE pause ahead of its June meeting, the focus will be on inflation rather than growth out-turns. The lowering of the household energy price cap by the regulator Ofgem will certainly pull down headline inflation, but the key focus will be the trajectory for core and services inflation in the near term. If these measures continue to show moderating inflation as expected, the market may be underestimating the potential for a rate cut as soon as June. If this does materialise, end-2024 rate expectations may also have to be reassessed, with 75bps of cuts being a more reasonable expectation.

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