mni

All Signal, No Noise

MARKET ANALYSIS

BoE Preview: February 2025

Statement/Minutes release: 12:00GMT, Thursday 6 February
Press conference: 12:30GMT, Thursday 6 February
Summary/Minutes: https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2025/february-2025
Monetary Policy Report:
https://www.bankofengland.co.uk/monetary-policy-report/2025/february-2025

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MNI View: Agents' Pay Settlements to Drive Near -Term Policy

Tim Davis, 4 February

It would be a huge surprise to the market if this week's MPC meeting delivered anything other than a 25bp cut to bring Bank Rate to 4.50%. The bar is also high (in both our view and the opinion of the sellside views that we have read) for forward guidance to be meaningfully tweaked. We would be surprised if the vote split wasn't 8-1 (also the base case for 18/22 sellside previews we read), although there are risks around the vote, particularly from the Agents' Pay Survey. There will also be focus on the Bank's latest forecasts which will accompany the meeting through the quarterly MPR (Monetary Policy Report) and the outturn of the Bank's Agents pay settlement survey for 2025.

November saw an 8-1 vote for a 25bp cut while three members voted for sequential cuts

Recall that the November meeting (the last MPR meeting) saw an 8-1 vote split for a 25bp cut with Catherine Mann the only member to dissent in favour of keeping Bank Rate on hold. The December meeting then saw a 6-3 vote split to maintain Bank Rate at 4.75% with serial dovish dissenter Dhingra being joined by the MPC's newest member Professor Alan Taylor and Deputy Governor Dave Ramsden in voting for sequential 25bp cuts. Of the six members in the majority the Minutes noted that:

"For five of these members, recent developments added to the argument for a gradual approach to the withdrawal of policy restrictiveness, while eschewing any commitment to changing policy at a specific meeting. For the other member, the evolution of and prospects for disaggregated measures of activity and inflation could warrant an activist strategy."

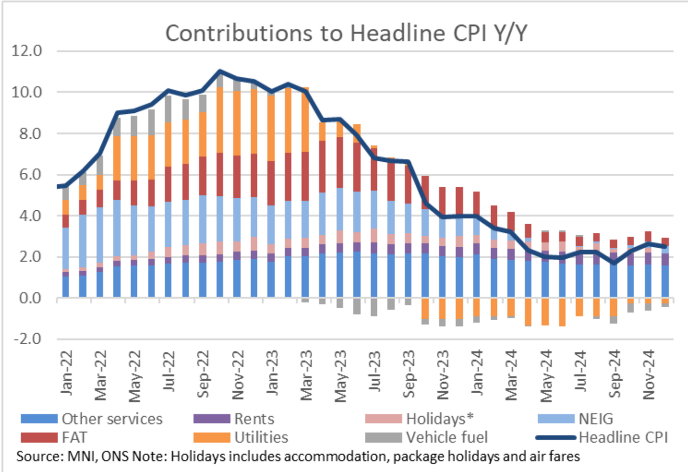
Given her wording in a number of speeches it seemed fairly evident that Mann was the member who didn't favour the "gradual" path and she has made it clear that when she does switch to voting for cuts that she could pursue a more "activist" strategy which could potentially mean that she relatively quickly switches from being the outright hawk on the MPC to one of the most dovish members. We don't think that we are there yet as Mann has put a lot of emphasis on wage pressures and inflation expectations – both of which remain at levels that we think Mann will not be happy to chance her stance just yet.

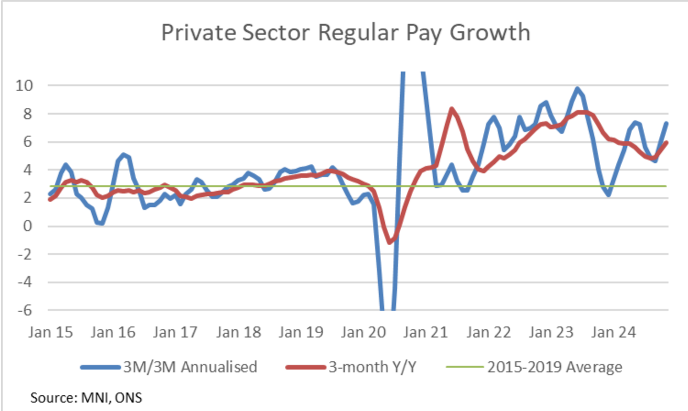
Activity data has disappointed while inflation data is broadly in line (when negating air fares)

If we take a step back and look at the wider data that the rest of the MPC is looking at activity data has largely disappointed while headline inflation data is broadly in line with the Bank's November

MPR forecast (albeit with services lower – partly driven by air fares which are likely to rebound – with food prices and core goods prices higher). Labour market data has been more mixed.

The official wage data (which isn't impacted by LFS issues) has come in much stronger than expected (with private regular AWE on track to beat the BOE's Q4-24 forecast by about 1ppt) but the December Minutes were rather dismissive of this dataset, noting that it "has tended to be more volatile than other wage indicators." Survey-based measures of pay (such as Brightmine) as well as the BOE's own surveys (Agents', DMP) have pointed towards 2025 wage settlements likely to come in broadly around the 3-4% area. Quantity measures of the labour market (through either surveys or the LFS data) have pointed to a softening of the labour market.





The Agent's annual pay settlement survey is the key for the upcoming meetings

However, on the labour market there are two crucial pieces of information that we don't know yet, but that are very likely to be seen as crucial in the MPC's decision making and forecast process. First, the point estimate from the BOE Agents' annual pay settlement survey. We think that this is the single most important number that the MPC is watching (across both survey data and hard data). The survey is very comprehensive (more so than any private sector surveys) and MPC members have shown unwavering confidence in the outturns of the surveys (in stark contrast to official ONS data). In February 2024 the Minutes included the point estimate for the Agents' annual pay settlement survey (which was 5.4% for 2024) and after noting that this number is likely to be in a 3-4% range in the December MPS (Monetary Policy Statement), where this number lands is in our opinion crucial for the outlook for monetary policy going forward.

A number at the top end of the 3-4% range and we think there is a good chance that come March we see a repeat of the December vote with no additional dissenters joining Dhingra, Ramsden and Taylor in looking for front-loaded sequential cuts. A number at the bottom of the range we think opens up the possibility of potential changes to guidance as soon as the March meeting alongside potential additional members preferring sequential cuts.

In our view this number could also impact the voting outcome for this week's meeting. A 4% print may be of concern to Greene or Pill, for example, and may push them into a more cautious stance (resulting in potentially a 7-2 or 6-3 vote split). While a print very close to 3% would be unlikely to see any hawkish dissenters other than Mann (it may even push her to vote for a 25bp cut) and there would also then be the possibility of a member potentially voting for a 50bp cut (although we see a high bar for this at this stage).

The second crucial information that we don't have access to yet, but that the MPC has already seen is the Decision Maker Panel data. The full data for this will be released at 14:00GMT, two hours after the decision and MPR will be published. We don't put anywhere near as much weight on this as the Agents' pay survey, but it is one of the most closely watched surveys for MPC members.

What does this mean for scenarios and forecasts?

A lot of the MPC's recent communications have focused on how much weight individual members place on each of the three cases previously set out. Case 3 is the most hawkish and has until now at least been seen as the central case for Mann – this involves structural changes pressuring inflation higher with little scope to really cut substantially for now. Case 2 seems to be the base case for the majority of the MPC now and is the case for "gradual" rate cuts – note that the November MPR forecasts were based on case 2 (a period of slack being needed for inflation to fall).

In case 1, inflationary shocks pass out quicker than expected and a slightly faster pace of rate cuts can be justified. This has been Dhingra's base case for some time, has been seen as an increasingly plausible case by Taylor recently and judging by Ramsden's December vote by him too. Breeden we think sees a higher probability of case 1 than case 3 while the last official comments from both Bailey and Lombardelli were that there were broadly balanced risks between cases 1 and 3 but that the negative consequences of case 3 outweighed the negative consequences of case 1. Pill and Greene we would still place closest to case 2 but with risks of case 3 exceeding those of case 1 (albeit we haven't heard from Pill in particular on monetary policy for some time).

We expect the scenarios to remain largely unchanged for now

We expect these cases to remain for now, particularly if Mann's central view continues to be more in line with case 3. However, we do note that Taylor introduced a possible downside risk where Bank Rate would need to potentially move below the neutral rate for a period of time. This was something that in his latest speech he seemed to put a very small weight on but there is potential at some point for this to be made into a "case zero". We think that it's probably too early to do this in February but we wouldn't completely rule it out. To us it seems as though this would be more of a May development (potentially signposted in March) and would accompany Mann switching away from case 3 being her base case (and potentially with her moving into her more "activist" mode).

The scenarios are particularly important here if the Bank once again chooses to base its main forecasts on one of the cases. We think this is likely and would be surprised if the forecasts were not based on case 2. Indeed, if the forecasts were based on case 1 that in itself would be a clear shift in the central view of the MPC. Or (more likely in our view) if there was a skew in the forecasts that showed case 1 was becoming more likely, that would also be a significant dovish development, in our view.

Where will the forecasts end up?

The general consensus seems to be that the modal forecast will end up with CPI around the 2% target mark in 2-years and further below this in 3-years time (see the page 5). Anything above / below these numbers is likely to elicit a hawkish / dovish reaction from the market.

MNI Instant Answers

- Ahead of each policy meeting the MNI Markets team select a number of questions that should capture the essence of the central bank meeting in questions that can largely be answered either numerically or with a yes or no, and which represent all of the expected tradable possibilities.
- These questions will be published within the Preview document and 15 minutes before the announcement on both MNI Bullets and the interactive chat.
- We aim to publish the answers within a few seconds of the embargo being released via the MNI Bullets and our interactive chat.

Advantages

- No need to scroll through 30 newswire headlines.
- All of the tradable info you need delivered concisely straight to your bullet feed or the interactive chat.
- Gives you the confidence that you can quickly trade at the announcement time.

February Questions

1. Was the Bank Rate changed, and if so by how much?
2. Number of members voting for cut of 50bp or greater?
3. Number of members voting for 25bp cut?
4. Number of members voting for unchanged rate?
   NB: On questions 2-4 we will name the dissenters (and the magnitude of dissent)
5. Did the MPC drop reference to a “gradual approach” to removing “policy restraint being appropriate” from their Statement?
6. Did the MPC say that “the risks from inflation persistence are receding”?
7. Did the MPC again say Bank Rate is likely to “remain restrictive for sufficiently long”?
8. Did the MPC again say it will “decide the appropriate degree of monetary policy restrictiveness at each meeting”?
9. Did the MPC leave its guidance paragraph materially unchanged versus the November policy statement?
10. UK CPI forecast in 2 years time at market rates (mode / mean)?
    Previous: 2.2% / 2.2% (Previous Q1-27 was 2.1% / 2.1%)
11. UK CPI forecast in 3 years time at market rates (mode / mean)?
    Previous: 1.8% / 1.8%
12. Bank’s Agents suggested average pay settlement in 2025?

Summary of Analyst Views

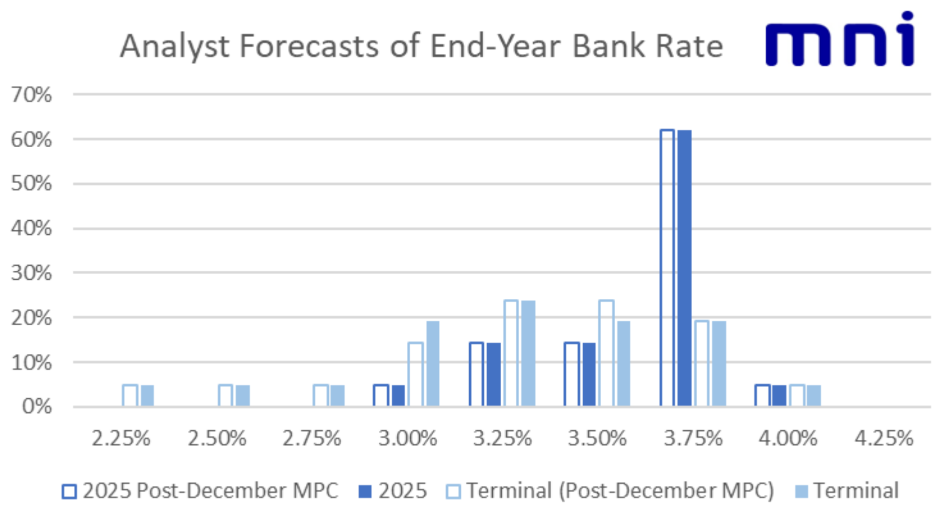
- All of the analyst previews that we have read look for Bank Rate to be cut 25bp in February.
- 18/22 of the views that explicitly stated the vote split look for 8-1, with one looking for 1-2 dissenters and the remaining 3/22 looking for 7-2 with Greene joining Mann in voting for unchanged Bank Rate. Only a handful see a serious risk of a member voting for a 50bp cut.
- The vast majority of analysts look for no meaningful changes to the guidance – with this likely to come at a subsequent meeting. However, Citi and JP Morgan note high changes of changes to the scenarios (particularly the downside scenario).
- For the MPR projections, all analysts expect an upward revision to near-term CPI forecasts. Most analysts also expect a downward revision at the 2-year horizon, with the median coming in at 2.0% (in line with the Bank's target). The majority of analysts (8/10) look for a downward revision to the 3-year forecast from the previous 1.8%. The median comes in at 1.65% with analyst estimates as low as 1.5%.

Analyst MPR Projection Expectations

mni	Headline CPI		
	1-Year	2-Year	3-Year
Bank of America	2.6%	1.9%	1.7%
Barclays	3.1%	2.0%	1.5%
Citi		1.8%	1.6%
Daiwa			1.75%
Deutsche	2.9%	2.1%	1.7%
Goldman Sachs	2.8%	1.8%	1.5%
HSBC	2.9%	2.0%	1.7%
JP Morgan	2.7%	1.9%	1.8%
Morgan Stanley	2.6%	1.9%	1.6%
NatWest Markets		2.0%	1.6%
Median	**2.8%**	**1.9%**	**1.65%**
Prior (Q4-25/26/27)	2.7%	2.2%	1.8%
Prior Q1 (Q1-26/27)	2.6%	2.1%	

Source: Bank of England, MNI

- After February, the majority of analysts (18/21) look for the next cut to be in May. Deutsche Bank expect a longer pause to August while both Morgan Stanley and TD Securities both look for a March cut (while noting heightened risks of a delay).
- In terms of 2025 outlook, over 60% of analysts (13/21) expect 100bp of cuts across the year to 3.75%. Only NatWest Markets (4.00%) looks for fewer cuts (despite this being the closest forecast to market pricing). Most remaining analysts (6/21) are equally split between 3.50% and 3.25%.
- In terms of terminal rate, the majority of analysts 17/21 (81%) have their base case in a 3.00-3.75% range, almost evenly split. Other than NatWest Markets (4.00%) other outliers are to the downside. The mean terminal rate is 3.27%.



Summary of Analyst Views (Sorted by Hawkish to Dovish)

Institution	Post-December	Pre-February
Jefferies	"See the BoE cutting again in February, alongside fresh forecasts, the bar for a longer mid-cycle pause at this stage is high. We see the BoE delivering 100bps of cuts next year"	7-2 vote (Mann and Greene prefer Bank Rate on old). Risk of Dhingra voting for 50bp cut. Expect cuts to 3.75% this year.
Natixis	"Four rate cuts in 2025, at every meeting with an updated forecasts scenario." In 2026 "cuts will be frontloaded to anticipate and to limit the negative impact on private sector."	Expect 7-2 vote with Mann and Greene on hold. Expect quarterly 25bp cuts through 2025.
Barclays	Next cut Feb25. "Sequential 25bp cuts from May should mean the MPC reaches the top end of the range of neutral by September, with the terminal rate at 3.50%."	7-2 vote for 25bp cut with Mann plus one of Greene/Pill preferring unch Bank Rate (risk of 8-1 or 6-3).Current guidance unch. Expect sequential cuts from May25 to a terminal 3.50% by Sep25.
UBS	Expect "25bp cuts each in Feb, May, Aug, Sep, Nov and Dec, to 3.25% by end-25."	Expect 1-2 dissenters to keep rates unch (Mann and possibly Greene). CPI forecasts to remain broadly unchanged. Look for further 25bp cuts in May25, Aug25, Sep25, Nov25, Dec25 to 3.25%.
Deutsche	"We see only one rate cut in the first half of 2025 (February). And we expect the MPC to deliver three quarter point rate cuts in the second half of next year."	8-1 vote for 25bp cut (Mann dissent) with risks of more dissent. Possible BOE explicitly states further cuts likely. Pause after Feb25 with cuts in Aug25, Nov25, Dec25, Feb26, Mar26 to 3.25%.
NatWest Markets	Feb "cut remains very likely… market pricing to revert back to an ~80%+ probability...policy outlook has not obviously changed this side of May 2025." Cut Feb25, Mar25, May25 to 4.00%.	8-1 vote (Mann on hold). Guidance more likely to change in May25. Further 25bp cuts in May25 and Aug25 to terminal 4.00%.
JP Morgan	"Language emboldens our long standing view that the BoE is on a quarterly cutting path, which implies the next cut coming in February and with a magnitude of 25bps."	Expect 8-1 vote (Mann on hold) with risk of Dhingra voting for 50bp cut. Expect unch guidance. See something akin to Taylor's "downside scenario" as part of BOE's scenarios.
Rabobank	"Path of least resistance remains for quarterly cuts. With three members already favoring cuts, only two more need to switch sides in February to mark the next move."	8-1 vote (Mann dissent). MPC "may tweak its language to reflect mounting downside risks." Expect quarterly cuts to 3.75% in 2025 (where monpol still remains restrictive).
RBC	"Only needs two Committee members to switch their vote to get a rate cut over the line in February - a relatively low bar, we think, given the (limited) commentary ."	8-1 vote (Mann on hold). New forecasts "will potentially allow the MPC to ease its gradual mantra at this meeting." Forecast quarterly 25bp cuts to 3.75% this year.
Lloyds		8-1 vote as meeting "too soon" for Mann to switch her vote. Expect downward revisions to the forecasts at the 2-year and 3-year horizons.
Bank of America	"Expect the BoE to cut quarterly to 3.50% by early 2026. But we are less worried about growth/ labour market risks compared to some of dovish Monetary Policy Committee (MPC) members."	8-1 vote for 25bp cut (Mann dissent) with BoE continuing to signal quarterly cuts. Expect quarterly cuts to 3.50% by early 2026. Risk of faster cuts if growth / labour market disappoint.
Nomura	"Expect continued quarterly cuts through 2025 and in February 2026, until the upper end of neutral (3.50%) is reached."	Expect 8-1 vote with unch guidance. Continue to expect quarterly 25bp cuts to 3.50% in early 2026 (the top of the 3.0-3.5% neutral nominal range).
BNP Paribas	"Don't think the BoE doves will muster a majority for a faster pace of easing, and we continue to see Bank Rate ending next year at 3.75%."	8-1 vote with unch guidance but "scope for a signal that it sees a diminished risk of structural inflation persistence." Expect quarterly cuts to terminal 3.50% in Feb26.
Daiwa	"Four [25bp] cuts next year and further easing in 2026 too. And if economic output continues to flat-line or worse, then we would not rule out seeing more than four cuts in 2025. "	8-1 vote for 25bp cut (Mann dissent). Quarterly cuts in 2024 to 3.75% with further cuts to 3.25% in 2026.
Goldman Sachs	"Still see compelling reasons for quarterly cuts given weaker growth, labour market loosening, and the restrictive policy stance." Expect "quarterly 25bp steps through 2026Q2."	8-1 vote split most likely but would not rule out Mann switching vote. Continue to expect quarterly 25bp cuts this year.
Société Générale	"One 25bp cut every quarter until Bank Rate reaches 3%. On balance, we believe the risks are tilted to the downside on growth and inflation, and this could trigger more aggressive easing."	Expect 8-1 vote for 25bp cut. Expect gradual language to "persist for some time". Expect quarterly 25bp cuts but risks of "more aggressive easing after June."
Danske	Now expect quarterly cuts through 2025/26 with the next in February. "Terminal rate forecast unchanged at 2.75% but expect it to be reached by Q4 2026 (prev. Q2 2026)."	Expect 8-1 vote for 25bp cut. Unchanged guidance expected. Continue to look for quarterly 25bp cuts to 3.75% by end-2025 with risk of a swifter cutting cycle.
HSBC	Don't think another higher-than-forecast inflation print will be enough to move off "gradual" path for 25bp cut in Feb25. Further 25bp cuts May25, Aug25 then sequential to 3.00% by Feb26.	Base case:8-1 vote but risk of 9-0 or a vote for a 50bp cut.
ING	"Reinforces our dovish view on the Bank of England for next year – we expect 150bp of cuts"	8-1 vote for 25bp cut (Mann on hold). Look for quarterly cuts this year but BOE could be pushed into more aggressive moves.
Citi	"Continue to expect a cut in February, and May, before a shift to consecutive cuts from June."	Base case: 8-1 vote; risk of 9-0 or 7-2 depending on Agents survey. "Case 1" to be tweaked to include downside demand surprise. Look for Bank Rate on a two handle by mid-2026.
Morgan Stanley	End-2025 forecast 3.50%. Cuts "faster when obviously more restrictive" (Feb25, Mar25, May25); slower "closer to perceived near-term neutral." Front-loaded conviction "not high".	8-1 vote but "would not be entirely surprised" by 6-3. Base case unch guidance but 30% prob of explicit frontloading mention. 25bps cuts in May25, Jun25, Aug25, Nov25 plus 2x25bp in 2026.
TD Securities	"Decision reinforces our long-held view that the MPC will cut rates at each meeting from Feb to Aug next year." TDS also look for a pause to Q2-26 before cutting to 3.00% neutral.	8-1 vote (Mann on hold) with guidance unch and "relatively vague." Expect sequential cuts from Feb25 to Aug25 to 3.50% but material risk Mar25 cut shifted to later in 2025.

Source: Analyst previews and MNI

Note: Sorted by vote split, then timing of next cut, then timing of next two subsequent cuts, then end-2025 rate, then terminal rate, then date reached, then balance of risks (if specified).

Analysts' Key Comments (A-Z)

ANZ

- "MPC will cut rates by 25bp every quarter between Q1 to Q3 and cut twice by 25bp each in Q4, taking the cumulative cuts in 2025 to 125bp and leaving the policy rate at 3.50% by year-end."

Barclays

- Expect 7-2 vote for 25bp cut with Mann and one of Greene or Pill voting for unchanged Bank Rate. See risks of 6-3 or 8-1. "We would take little signal from any vote split within this range for future meetings."
- "Think the MPC will retain its current guidance to ensure maximum optionality."
- "Continue to expect the MPC to shift to sequential Bank Rate cuts from May onwards, to a terminal rate of 3.5% in September 2025."
- CPI forecasts: 1-year 3.1%, 2-year 2.0%, 3-year 1.5%.
- GDP forecasts: 2025 1.0%, 2026 1.4%, 2027 1.2%.

Bank of America

- Expect 8-1 cut with Mann voting for unchanged Bank Rate.
- "We don't expect the BoE's guidance to shift away from the gradual and meeting by meeting approach it has laid out previously. We don't expect the BoE to signal an intent to speed up cuts or deviate from the quarterly cutting path that they laid out as their base case at the end of the last year."
- "In our base case we see four quarterly cuts in 2025 and one in 2026 to reach 3.5% by early 2026."
- "If the growth weakness sustains, the BoE's trade-off would become more difficult. If we see a sustained and large growth and labour market deterioration, the BoE could become more forward looking in future meetings by turning greater attention to these growth risks and perhaps speed up cuts."
- CPI forecasts: 1-year 2.7%, 2-year 2.6%, 3-year 1.9%.

BNP Paribas

- Expect 8-1 vote with unchanged guidance "but see scope for a signal that it sees a diminished risk of structural inflation persistence in the UK."
- "Maintain our view that the BoE will cut Bank Rate every quarter, at meetings coinciding with its Monetary Policy Report, until it reaches 3.50% in Q1 2026."

Citi

- "Most likely an 8-1 vote split, with an equal risk of a 9-0 or a 7-2 – depending primarily on the outcome of the Bank Agents survey."
- "Expect Mann to be the lone dissenter, although both she and Pill are worth watching closely."

- "Expect material guidance changes to reflect a more symmetrical view of the balance of risks via a tweak to the 'three scenarios'. The most likely path remains a cautious approach for now as uncertainty around the transmission of the NICs shock remains, but faster later in the year as the labour market continues to soften and uncertainty dissipates."
- Expect scenarios "to become more multi-dimensional, with a newfound focus on the downside risks around demand, alongside the upside risks to inflation. This was referenced by Taylor… with weaker demand noted by both Taylor and Breeden as potential concerns, risks here have likely become more prominent in MPC deliberations."
- "Expect this to be reflected in a revamping of case one – with the addition of weaker demand noted. Cases two and three will we think be broadly left unchanged."
- "We continue to expect Bank Rate to fall to a two-handle through the middle of 2026 as monetary policy is called on to provide stimulus."
- CPI forecasts: 2-year 1.8%, 3-year 1.6%.

Daiwa

- Expect 8-1 cut with Mann voting for unchanged Bank Rate.
- "Expect the MPR to revise up the projection of inflation in the current year from 2¾% but revise down the projection for 2026 from 2¼% previously… inflation will undershoot the target in 2027 at around 1¾%."
- Quarterly cuts in 2024 to 3.75% with further cuts to 3.25% in 2026.

Danske Bank

- Expect 8-1 cut with Mann voting for unchanged Bank Rate.
- "Expect the BoE to stick to its previous guidance"
- "Expect the BoE to stick to quarterly cuts, leaving the Bank Rate at 3.75% by YE 2025, which is lower than markets are expecting. Markets are pricing around 75bp for 2025. However, we highlight that the risk is skewed towards a swifter cutting cycle in 2025, given the clearly dovish bias within the MPC as evident from the December meeting."
- "Expect the BoE to lift the inflation forecast in the near-term and pencil in a slight undershoot of the 2% target further out given that the more hawkish implied Bank Rate conditioning path."

Deutsche Bank

- "An 8-1 vote tally for a rate cut seems more likely in our mind. And if anything, we think risks are skewed more in a hawkish direction, given the shift in price expectations to start the year."
- "Will the MPC go further in its February message? Possibly. We think there's a good chance, given the emergence of spare capacity following the Bank's updated projections and supply side update, the MPC explicitly states that further rate cuts are likely – strengthening its guidance around the direction of travel for rates, with increasing consternation around the quantities side of the labour market and weakening demand."

- Expect pause after February with further 25bp cuts in August, November, December (to 3.75% by end-2025) then February and March 2025 to a terminal 3.25% "broadly in the middle of our estimated [neutral] range."
- CPI forecasts: 1-year 2.94%, 2-year 2.11%, 3-year 1.70%.
- GDP forecasts: 2025 1.0%, 2026 1.25%, 2027 1.25%.
- "See very few changes to the Bank's potential growth and NAIRU assumptions, with the former hovering around 1.25% and the latter sticking at 4.5%."

Goldman Sachs

- "8-1 vote split most likely." Regarding Mann: "would not entirely exclude the possibility that she switches her vote in favour of a cut given the weakness in the activity data."
- "Continue to expect the MPC to cut Bank Rate in quarterly steps by 100bp this year."
- CPI forecasts: 1-year 2.8%, 2-year 1.8%, 3-year 1.5%.
- GDP forecasts: Q1-26 1.6%, Q1-27 1.2%, Q1-28 1.5%.

HSBC

- Base case for 8-1 vote but "there's a risk Catherine Mann also votes for a cut, or possibly one of the doves might opt for a 50bp cut."
- "Risks lean towards dovish signals such as one or two votes for a 50bp cut, or clearer push-back against current market pricing."
- CPI forecasts: 1-year 2.9%, 2-year 2.0%, 3-year 1.7%.
- GDP forecasts: 2025 0.9%, 2026 1.2%, 2027 1.2%.

ING

- Expect 8-1 vote.
- "Real surprise… would be if Mann finally throws in the towel and votes for a cut. That feels unlikely, but it would be the single most dovish thing that realistically could happen at February's meeting."
- Vote for 50bp cut is "possible, but unlikely."
- "Looking for three further cuts later this year, but a shaky jobs market and the prospect of lower services inflation risks pushing the BoE into more aggressive moves." Base case is quarterly for now.
- 2025 growth forecast "could be revised down to around 1%."
- Inflation in 2-years time "is likely to be at or below 2%."

Jefferies

- Expect 7-2 vote for 25bp cut. "Greene and Mann are likely to vote in favour of keeping rates on hold, and we see some risk that Dhingra decides to back a 50bp cut given the weakness in recent activity and labour market data."
- "Expect the BoE to deliver three more cuts this year, following its move in February bringing rates to 3.75%.

JP Morgan

- “We expect an 8-1 vote with Mann dissenting hawkishly for no change… there is an outside chance it could produce a three way split next week with Dhingra potentially voting for a 50bp cut.”
- “Expect the MPC overall will remain cautious, sticking to its recent guidance.”
- “In his speech, Taylor referenced a “downside scenario” which sounds similar to the adverse demand shock... we would expect something akin to this as part of the BoE’s scenarios.”

Lloyds

- Expect 8-1 vote as “with wage growth metrics still elevated, we suspect this meeting comes too soon” for Mann to switch her vote.
- “Expect the conditioning variables to help drive downward revisions to the forecasts at the two-year… and three-year… horizons.”

Morgan Stanley

- Expect 8-1 vote “but divisions being a touch more pronounced among those voting for a cut… We would not be entirely surprised by a 6:3 outcome, with Pill and Greene joining Mann.”
- Base case is for unchanged guidance but “an MPC that is more concerned on growth could perhaps change the messaging to explicitly acknowledge that given emerging balance of risks, more frontloaded action was possible – as an insurance against undue volatility in/loss of output. We… ascribe it a 30% chance.”
- “We think the big question of this meeting is whether the word "gradual" is replaced with a version of the word "front-loaded". And, on balance, we think we are not quite there yet”
- “Expect a dovish change in messaging [in May], and sequential cuts in May, June and August. We then see a November cut to 3.5%, with an additional two cuts in 2026, leaving terminal rate at 3%.”
- CPI forecasts: 1-year 2.6%, 2-year 1.9%, 3-year 1.6%.
- “If there is any skew in February, it should be tilted to the downside – as Breeden's speech suggests the chances of a Scenario 1 outcome… are higher than those of Scenario 3.”
- “Cumulatively, over the forecast period, we think ~1.0%-1.25% lower growth is plausible.”

Natixis

- 7-2 vote with Mann and Greene on hold.
- Expect cuts “at every meeting with an updated forecasts scenario, implying February, May, August and November.”

NatWest Markets

- Expect 8-1 vote with Mann the sole dissenter.
- “Divergent economic data… compound the MPC’s policy dilemma and suggest policy guidance will be essentially unaltered: a continuing pace of Bank Rate easing of -25bp per quarter. A more categorical change in guidance is more likely in May, once there is more visibility around employment and wage inflation.”

- “Recently tweaked our BoE Bank Rate forecast (20th January). We continue to forecast a total of 75bp of easing in 2025, but have taken out the March cut – retaining the May cut and putting a 25bp reduction in for August 2025.” (Now expect quarterly cuts to 4.00% terminal in August).
- “The balance of risks around our 4.0% ‘terminal’ rate forecast in August 2025 remains to the downside – though we would not expect these risks to crystallise before the tail-end of 2025 / early 2026.”
- CPI forecasts: 2-year 2.0%, 3-year 1.6%.
- GDP forecasts: 2025 1.25%, 2026 1.25%.

Nomura

- Expect 8-1 vote with unchanged guidance.
- “We expect continued 25bp rate cuts each quarter until a terminal rate of 3.50% in early 2026, which we think is around the top end of the neutral range.”
- “We think that 3.50% is around the top end of the neutral nominal range (3-3.50%).”

Rabobank

- “We think the vote to cut will be an 8- 1 vote, with Catherine Mann staying true to her hawkish self and backing no change.”
- “The MPC is likely to retain its gradualism guidance but may tweak its language to reflect mounting downside risks to growth and the labour market.”
- “We foresee four 25bp rate cuts over the course of 2025, bringing rates to 3.75%. Even at that level, monetary policy will remain restrictive.”

RBC

- Expect 8-1 vote.
- “A particular risk that we would flag is a softening of the MPC’s current ‘gradual’ guidance in the face of the deterioration in the UK’s growth outlook. In particular, any nod or indication of all meetings being ‘live’ going forward could trigger a repricing of non-MPR meetings.”
- “Think the new MPR forecasts will potentially allow the MPC to ease its gradual mantra at this meeting.”
- “Our current BoE call is for the MPC to deliver 100bps of cuts in total this year; one 25bps cut at each of its four quarterly MPR forecast meetings… the bigger risk… is the speed at which the MPC may deliver cuts.”

Société Générale

- “A string of soft data should result in an 8-to-1 vote in favour of a 25bp rate cut.”
- “We believe this ‘gradual’ language will persist for some time, as the majority group remains concerned about the upside risks to inflation (geopolitical and budget measures), which have yet to crystallise.”
- “We maintain our view of quarterly 25bp cuts, although we believe the risks are tilted towards more aggressive easing after June, especially given the recent data flow.”

- “Growth is likely to see a downward revision, generating a greater degree of economic slack… But due to a wider output gap, CPI is likely to be revised down and undershoot the inflation target in the medium term.”

TD Securities

- Expect 8-1 vote (Mann hawkish dissenter).
- “Guidance is likely to remain unchanged and relatively vague.”
- “Continue to expect sequential cuts from February to August inclusive, though the risk that the March cut is "shifted" later into the year is material, should some of the underlying data not cool sufficiently by the MPC's March meeting.”
- CPI forecasts: “We look for a very slight downgrade to Year 2 (and possibly Year 3) inflation on the back of a greater degree of slack. This would leave Year 3 inflation still below the 2% target, and might just about be enough to nudge down the Year 2 forecast to 2.0%.”

UBS

- “Expect the majority of the MPC members to support a 25bp rate cut with only one or two members (Mann and potentially Greene) voting to keep rates unchanged.”
- Look for “25bp cuts each in May, Aug, Sep, Nov and Dec, to 3.25% by end-25.”
- CPI forecasts: “To remain broadly unchanged with the disinflationary impact from a higher policy rate assumption offsetting the inflationary impact of higher energy prices and a weaker currency.”
- GDP forecasts: 2025 1.0%, 2026 1.25%, 2027 1.25%.
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MNI POLICY TEAM INSIGHT

BOE Looks Set To Edge Up Neutral Rate Estimate

By David Robinson, 4 February

The Bank of England looks set to revise slightly higher its estimate of the neutral rate of interest in its February Monetary Policy Report, implying that current policy is not as restrictive as previous estimates suggested and that Bank Rate may have a little less far to fall to hit it.

The last time an MPR contained formal estimates of the neutral rate was in August 2018, under former Governor Mark Carney, during a period when academic research had pointed to its decline due to factors including debt, demographics and weak productivity growth. Back then the Bank published several estimates showing neutral had fallen to around 0%–1% in real terms, with a modal estimate of around 0.25%, or 2.25% nominal. A new estimate should push this at least a little higher.

Monetary Policy Committee member Alan Taylor, in his inaugural speech on Jan 15, noted recent private sector estimates of the real neutral rate range stretch from 0.5% to 1.0%, suggesting a level "just a touch higher" than previous modelling.

"Adding the inflation target of 2%, I would see policy rates levelling off at a terminal rate of 2.75%," Taylor said. This compares to the current policy rate of 4.75%, with markets pricing in around 77 basis points of cuts by year-end, including 25bp this week.

Taylor said this estimate would put the BOE's neutral real rate between that implied by the Fed's dot plot, of around 1%, and the European Central Bank’s of around zero, a reasonable assumption.

His colleague Megan Greene has consistently said, from before joining the MPC through into her speeches, that she believes that the neutral interest rate may have risen, and has noted how many private economists have revised their estimates higher since 2022.

CAVEATS

If the MPC does publish a fuller analysis in the MPR it is likely to come with caveats. Bank estimates have repeatedly warned of the uncertainty around calculating neutral, which the MPC divides into the shorter-run rate, known as lower case, r* and the longer-run, upper case, R*, estimates for both of which are likely to be published on Thursday.

Almost inevitably, MPC members will also disagree on some of the assumptions about estimating neutral.

The third of the committee’s three current scenarios for the economy, backed by MPC member Catherine Mann, assumes that structural changes have pushed r* higher. This would suggest a higher rate than that implied by the first two scenarios, at least in the short-run.

DISENTANGLING SUPPLY AND DEMAND

Another question that the MPR will answer is whether the committee has moved beyond the three scenarios, though February may be too early for a rejig. Taylor has already sketched out a fourth, in which the committee needs to take the policy rate into stimulative territory to offset growing evidence of economic weakness.

At the press conference Governor Andrew Bailey is also likely to face questions about how the MPC thinks higher effective interest rates, stemming from rising sovereign debt yield curves, affect both the real economy and policy. These questions could be addressed in the MPR, but the MPC has so far ducked clearly setting out its analysis of how the impact of uncertainty generated by the U.S.'s very-fast-changing trade policy. (See MNI INTERVIEW: Gilt Hit Weighs On Inflation - Ex-BOE Saunders)

A supply stocktake should also help disentangle how much of recent inflation and disinflation has been due to supply or demand.
