11 September 2026

Bank of England Preview

On hold amid aggressive market pricing

- **We expect the BoE on hold in line with consensus. We pencil in a cut as the next move as Bank Rate is already in restrictive territory.**
- **Higher energy prices have weighed modestly on growth and fuelled modest inflation. Data releases ahead of the meeting could add to a more hawkish tone, though.**

Signs that increasing transportation costs are feeding through to broader price pressures in the UK are limited. Ofgem's energy price cap fuelled a 0.3 percentage point rise in headline CPI inflation in July to 2.9%, but core inflation has been flat at 2.6% for three consecutive months. Some energy-sensitive prices, such as transport-related prices, are increasing but there seem to be no significant signs that businesses are changing their pricing dynamics in response to higher costs. The BoE's Decision Maker Panel shows that firms' year-ahead own-price inflation expectations stood at 3.8% in the three months to August and are trending down, although they are still a little higher than before the Iran war.

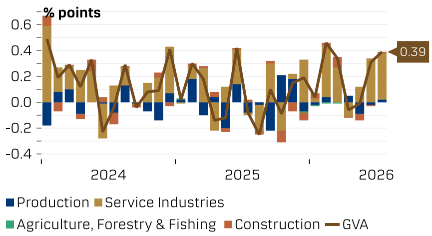
Growth surprises continued in July, as GDP increased by 0.4% driven by a stronger service sector. The labour market report released in August continued to paint a picture of moderate cooling. Employment growth is negative, but not alarming. Wage growth is trending lower and unemployment is stable at just below 5%. Note that, fresh labour market data and inflation figures will be released in the days ahead of the meeting.

Governor Bailey's stance remains key to pinning down the policy outlook. In a briefing to parliament this week, he dismissed the aggressive market pricing as reflecting a large risk premium and thus maintained his wait-and-see stance despite the deterioration in energy markets. The most likely hike scenario would involve Bailey and Deputy Governor Lombardelli tipping the vote in favour of a hike. However, her statement at the July meeting, *"policy would need to be adjusted were there to be evidence of risks of significant second-round effects..."* indicates she is still some way from that. For now, the most likely outcome for Thursday looks like a repeat of the July's 6-3 vote.

BoE call. Our base case remains for an unchanged Bank Rate until Q2 2027, when the BoE can resume the cutting cycle and deliver another 25bp rate cut. A Bank Rate of 3.75% is already restrictive and we are more sceptical about the growth outlook for H2. If energy markets do not improve and the economy continues to look resilient, then we would expect a rate hike, even in the absence of spillovers to broader price-setting. The cost of an "insurance hike" has declined over recent months.

Market reaction. Given the >100bp worth of hikes priced in for the BoE, we think the balance of risk is tilted towards a less hawkish stance than that. This would leave some upside risk for EUR/GBP. That said, investors seem to subscribe to a very different narrative than the MPC and there is probably a limit to what the BoE can and will do about that.

UK economy has proven resilient



Source: ONS, Macrobond

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