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## BOE HIKES RATES - QUICK REACTION

### Berenberg Macro Flash

**BoE defies Brexit uncertainty – for now:** UK monetary policy remains highly accommodative in the face of Brexit uncertainty despite the BoE's decision to hike the bank rate by 25bps to 0.75% today. The nine member Monetary Policy Committee (MPC) voted unanimously in favour of hiking rates and signalled that more hikes will be needed. After raising rates last November, today's hike is the second step by the BoE in its belated and gradual post-Lehman policy normalisation, taking the Bank rate to its highest level in almost 10 years. As we had expected an 8-1 split the news from the BoE is slightly more hawkish than expected.

**That's all for 2018:** We look for the BoE to keep rates on hold now until the Brexit outlook becomes clearer. Further out, however, we expect the BoE to step up the pace of its policy normalisation. In the first key piece guidance to markets, the minutes from the August MPC state that 'were the economy to continue to develop broadly in line with its Inflation Report projections, an on-going tightening of monetary policy over the forecast period would be appropriate to return inflation sustainably to the 2% target at a conventional horizon'. Meanwhile, the second key piece of guidance notes that 'taking these influences together, and conditioned on the gently rising path of Bank Rate implied by current market yields, CPI inflation remains slightly above 2% through most of the forecast period, reaching the target in the third year.'

The BoE has signalled in the past that a conventional horizon is typically two years not three. We therefore continue to expect the BoE to hike by more than the market had priced in before the August Inflation Report today. The market implied path at the time of the BoE's August forecast had rates reaching 1% by Q3 2020. As long as the UK avoids a no-deal hard-Brexit, look for the BoE to pick up the pace of rate hikes to two per year in 2019 and 2020 with the next hike coming in May 2019 after Brexit in March 2019 – taking the bank rate to 1.75% by Q4 2020 (1.5% by Q3 2020).

### Three things to look out for the press conference and policy statement:

- 1) Commentary on the BoE's new estimate of the equilibrium interest rate – estimated at 2-3%;
- 2) The conditions necessary for further rate hikes – sustained real GDP growth above 1.5% (the BoE's estimate of potential 1.5%);
- 3) Discussion on the BoE's estimate of full-employment (currently 4.5% as measured by the unemployment rate – could eventually fall below 4%).

For more detail on these issues [see here our preview of the August Inflation Report](#).

We will follow up with analysis of the BoE's updated guidance and forecasts following Governor Mark Carney's press conference (at 12:30pm London time).



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## MACRO NEWS

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