Market Bulletin

1 November 2018

UK Bank of England meeting: Rates on hold, waiting for a deal

At the latest Monetary Policy Committee (MPC) press conference, Governor Carney noted that businesses are taking a very cautious approach right now because of the uncertainty around the outcome of the ongoing Brexit negotiations. The same can be said for the MPC themselves, who left interest rates on hold at 0.75%, despite noting wages were rising faster than they had expected and at the fastest pace in almost a decade. They also noted that there was pent up business investment demand, which could be unleashed in the event of a Brexit deal being reached. Fiscal policy is also becoming more accommodative they observed, although they had not had time to include any potential impact from the budget in their little changed forecasts, released today.

Exhibit 1: Bank of England forecasts

	GDP (y/y)			CPI inflation (y/y)		
Meeting	**2018**	**2019**	**2020**	**2018**	**2019**	**2020**
Aug-18	1.4%	1.8%	1.7%	2.3%	2.2%	2.0%
Nov-18	1.3%	1.7%	1.7%	2.5%	2.1%	2.1%
Change	-0.1%	-0.1%	0.0%	0.2%	-0.1%	0.1%

Source: Bank of England, J.P. Morgan Asset Management. y/y is year on year. Data as of 1 November 2018.

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These comments and particularly the wage data, suggest that the Bank might have considered raising interest rates at this meeting were it not for the fog of Brexit related uncertainty obscuring their view. In contrast to the period after the referendum result, Carney noted that the hit to the UK economy following a no deal Brexit scenario would be “immediate and material rather than distant and speculative.” That said, he emphasized several times that a no-deal scenario was not the most likely outcome. We agree.

We continue to expect a relatively soft Brexit deal to be announced by the end of this year and for it to gain the support of UK parliament, albeit grudgingly from some quarters. In this scenario, the pound should rise, boosting real wage growth as imported inflation falls. Domestic inflation pressures, however, should continue to build with job vacancies around record highs. Against this backdrop, we would expect the MPC to focus on the firming domestic inflationary pressures and to raise rates more than once next year.

The uncertainty around whether a no-deal scenario will be avoided cannot last much longer. Once the fog clears, as long as it doesn't reveal a cliff edge, the MPC are likely to forge ahead more confidently, at least while global growth holds up.

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