

BoE likely to hike in August

- The BoE indicated at the June meeting that a rate hike on 2 August was likely
- The market seems convinced that a hike will take place at the August meeting
- We have moved our forecast of a hike forward from November to August

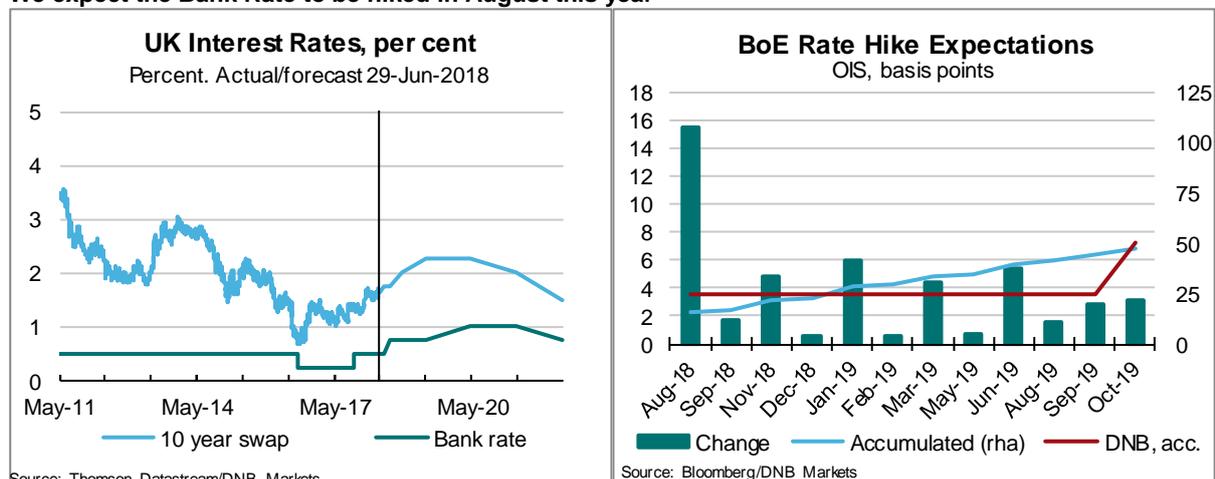
Hints of an August hike at the June meeting: At the June meeting three of the nine MPC members voted for a hike of the Bank Rate. Most importantly, BoE Chief Economist Haldane was one of the three, indicating that more will likely follow at the upcoming meeting on 2 August. The majority of six would like to see more data supporting the view that the weakness in Q1 was temporary, before they vote for a hike. The weakness in Q1 was in particular due to slow growth in consumer demand. Retail sales figures for April and May were strong (showing a total rise of 3.1%), supporting the MPC's view that the slowdown was temporary. However, the strong retail sales reading in May is likely to have been boosted by warm weather and the royal wedding. Hence, a downward correction will likely be seen in the June reading. Nevertheless, we do not think such a correction will be large enough to derail a likely hike at the August meeting. The BoE also disregarded the weakness in industrial production and exports at the June meeting, which also supported a hike in August.

The market seems convinced of an August hike: After the June meeting, the market adjusted the likelihood of a hike in August upwards. At present, the probability of a hike in August is around 65% according to Bloomberg. The probability may drop if retail sales data for June shows a significant decline, and the BoE still has the possibility to guide the market for a later hike. However, the MPC made such a turnaround ahead of the May meeting, and would most likely wish to avoid another turnaround ahead of the August meeting.

We have changed our forecast: Based on the above considerations we have changed our forecast from a hike in November to a hike in August. This view is also supported by the ongoing Brexit uncertainty, which may escalate in the autumn. Hence, the MPC may want to hike ahead of this period. We assume that the Bank Rate will not be hiked further until late next year, i.e. well after the formal Brexit has taken place.

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We expect the Bank Rate to be hiked in August this year





UK Interest Rate Update

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