MARKET COMMENTARY

BoE has become more hawkish

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- **Today, the BoE raised Bank Rate to 0.5% from 0.25% while four of nine MPC members voted for a 50 bps hike to 0.75%, signalling that the Bank has become more hawkish.**
- **The Committee also voted to begin to reduce the stock of UK government bonds as well as non-financial investment-grade corporate bond by ceasing to reinvest maturing assets.**
- **The BoE now sees inflation peaking at 7.25% in April, around 2 percentage points higher than expected in the November Report. This also suggests a stronger rate hiking cycle.**
- **We had already revised our outlook for Bank Rate to 1% by end of this year and to 1.25% early 2023. Risks are now for hikes to come earlier. We will refine our outlook in an upcoming Focal Point.**

As widely expected, **the BoE raised Bank Rate to 0.5% from 0.25% today.** However, the voting of the MPC members surprised on the upside as four of nine members voted for a 50 bps hike to 0.75%. Reaching the previously set threshold, the Committee also voted to begin to reduce the stock of UK government bonds by ceasing to reinvest maturing assets. This will start next month with £27.9 bn. Gilt redemptions will be worth around £70 bn over 2022 and 2023. Moreover, this policy also extends to the £20 bn holdings of non-financial investment-grade corporate bonds, which was another hawkish turn.

The Bank now expects CPI inflation peaking at 7.25% in April, around 2 pp higher than expected in the November Inflation Report. Today's decision of regulator Ofgem to raise the regulatory energy price cap (the most widely used tariff would rise to 1,971 pounds a year from April) as well as Chancellor Rishi Sunak's announcement to support households to pay the energy bill are currently not expected to influence CPI inflation much.

The BoE also revised its GDP growth forecasts for 2022 down from 3.75% to 3.25%. In its model forecast, the BoE uses market expectations for Bank Rate which reach 1.5% by mid-2023. Given this data input, the expected CPI inflation slows to just 1.6% in three years' time, which would be below target. This suggests that the BoE currently does not intend to raise Bank Rate to the market "prediction" of 1.5%. The wording for the outlook is that "some further **modest** tightening in monetary policy is likely to be appropriate in the coming months".

We had already revised our outlook for Bank Rate to 1% by end of this year and to 1.25% early 2023. Risks are now for hikes to come earlier. We will refine our outlook in an upcoming Focal Point.