

Audrey Childe-Freeman (0207 234 6676) Senior European Economist
Jodie Tiller (0207 234 7325) European Economist

Bank of England wait and sees in January, February rate cut on the cards

As we suspected, the Bank of England MPC opted for a no-change monetary policy outcome after today's Meeting (rates on hold, at 5.50%) **but a rate cut cannot be too far away** and in fact, we believe that some members may have voted for a rate cut today. Certainly, the case for further monetary easing is compelling.

We have no accompanying statement to refer to today but there will be a full insight on the Bank's current thinking in the minutes, due in a fortnight. Fundamentally, weak economic news have dominated the scene of late: continued weakness in the housing sector (with the exception of the December Halifax house prices) coupled with falling real disposable income have translated into a softer consumer sector profile, with early Christmas indicators painting a rather bleak picture. Add to this continued uncertainty from the financial community and recession fears on the other side of the Atlantic (to which the MPC pays much attention) and **the case for a further monetary policy action today was convincing**. On the other side of the equation, policy hawks would have highlighted the renewed increase in oil prices as an increased source for concern, especially when combined with a substantially weaker Sterling (a monetary stimulus already).

Bearing all this in mind, it would appear that a majority on the MPC have preferred to wait and see this month, with next month's updated BoE inflation and growth forecasts providing a good opportunity to justify further monetary easing. **Looking further ahead, we also believe that the MPC will have to ease policy more than once this year, with a sharp softening in the economy and a below trend growth outlook (and associated implications for inflation) warranting a looser monetary stance**. Today's rate decision may come as a very short-term relief for Sterling but this is a good selling opportunity; another rate cut is just around the corner, which coupled with a bleak growth picture and structural bear forces (see C/A and fiscal deficits) leaves little option but being a Sterling bear.

Audrey Childe-Freeman

