The Bank of England follows the Fed

Synopsis: The Bank of England has joined the Federal Reserve and European Central with its eleventh consecutive increase in interest rates.

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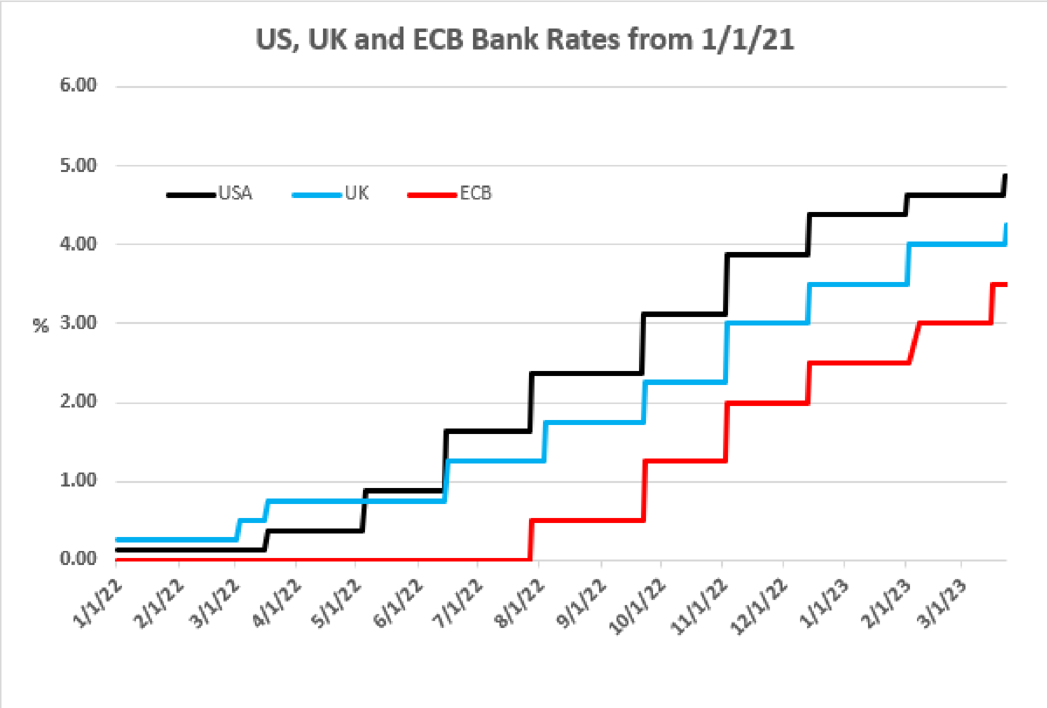

On Wednesday, the US Federal Reserve increased its Fed fund rates by 0.25% to 4.75%-5.00 %. its ninth consecutive rise, albeit much smaller than the 0.75% hikes seen in the middle of last year.The following day the Bank of England followed suit, adding 0.25% to its bank rate, taking it up to 4.25%, the highest rate since November 2008. A week ago, the European Central Bank made a 0.5% increase to its main refinancing rate, taking that up to 3.50% (and its deposit rate by the same 0.5%, to 3.00%).

All the moves came despite the issues in the global banking market which started with the demise of Silicon Valley Bank and, over last weekend, saw Credit Suisse merged into UBS and $17bn of Credit Suisse's AT1 bonds become worthless (give or take some likely court battles).

Earlier in the week there was some talk that the banking problems might prompt the Bank of England to stay its hand on another rate rise. However, Wednesday's CPI data – 0.5% above expectations – and the Fed's decision to add 25bps, taking its rate to 4.75%-5.00%. left Andrew Bailey et al with little choice but to turn the interest rate screw a little more.

In the event, according to the Bank's statement, there were two dissenters who voted to keep Bank Rate at 4%, with the Monetary Policy Committee's other seven members preferring 4.25%.

The Bank has become more optimistic about short term economic prospects, saying *that 'UK GDP was now expected to increase slightly in the second quarter, compared with the 0.4% decline anticipated in the February Report'*.

While noting that the latest CPI reading was *'0.6 percentage points higher than expected in the February Report',* the Bank sought to play down the jump, commenting that *'Most of the surprising strength in the core goods component was accounted for by higher clothing and footwear prices, which tend to be volatile and could therefore prove less persistent.'*

The Bank say that inflation *'...is still expected to fall significantly in 2023 Q2, to a lower rate than anticipated in the February Report. This lower-than-expected rate is largely due to the near-term news in the Budget including on the EPG, alongside the falls in wholesale energy prices*.' No specific year end or Q4 estimates were given in the minutes – these will have to await the next Monetary Policy Report, due in May.

Comment

The Bank, like the Fed, seems to believe it is near the end of the rate hiking process. It says, *'If there were to be evidence of more persistent* [inflationary] *pressures, then further tightening in monetary policy would be required.'*

Whether it spots any evidence should be clearer when it the Monetary Policy Committee next meets in the second week of May.

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