PREVIEW: BoE Policy Announcement due 30th July 2026, at 12:00BST.

- Expected to maintain the Bank Rate at 3.75%, as the BoE retains policy space and neither the energy or second-round effect criteria are met beyond scenario A.
- 7-2 vote split remains the base case, but Mann could well dissent and call for a hike.
- Overall, the extended hold narrative remains, but the risk to that continues to be hawkish in nature.

OVERVIEW: Expected to maintain the Bank Rate at 3.75% though the vote split could well be more hawkish than the 7-2 prior given the energy jump in July. Brent surpassed USD 100/bbl as geopolitical tensions flared once again, though the move has since moderated, albeit the situation remains volatile. While pertinent, the Brent resurgence left it below the YTD high and beneath the peaks under the three scenarios, the lowest stood at USD 108/bbl. As such, the energy-criteria alone does not support a July hike, but the recent resurgence is a hawkish factor nonetheless. Further, the scenarios focused heavily on second-round effects, effects that do not appear to be overtly visible based on the available data; though, that data comes with caveats. On such data, one-year inflation expectations via the DMP moderated, however, the survey period was below much of the Brent spike. A point that may factor in the vote split, as the hawkish-risk comes from Mann, who returned to activist language around the last meeting and since placed emphasis on one-year inflation expectations. Despite the DMP moderation and crude pullback, hawkish risks remain and a 6-3 vote is a real possibility. More generally, the BoE is unlikely to provide any more explicit further guidance, with Governor Bailey making clear early-July that he has a cautious view on providing it; but, again, recent action could make that view stale. Overall, the extended hold narrative remains, but the risks are hawkish in nature. For reference, market pricing implies just under a 10% chance of a hike, but this likely continues to factor domestic political risk. Note, the press conference is slightly later than usual at 13:00BST.

PREVIOUS MEETING: In June, the BoE held as expected at 3.75% in a 7-2 vote split with Greene joining Pill in dissenting and voting for a hike. Pill said a hike would establish a stance that is "well-placed to address the significant uncertainties...", while Greene said a "proactive hike" should assist in anchoring inflation expectations. Note, while she voted for a hold, Mann said she had time to continue to evaluate data points, with her statement suggesting the primary reason she did not vote to tighten was because the tightening would "rapidly" transmit to the economy. Elsewhere, the statement showed a greater reassurance in sustained disinflation pre-conflict and "most" viewed the tightening in financial conditions post-conflict as providing insurance against inflation risks. Additionally, Governor Bailey expressed greater confidence that gradual underlying disinflation was continuing, and acknowledged that the Labour market shows "some further softening" alongside signs of "demand weakness".

Overall, the June announcement kept the on-hold for the foreseeable future narrative in play for the BoE, though with risks at this stage still skewed to tightening.

SCENARIOS: The main development since June has been the resurgence in geopolitical tensions and the associated spike in energy benchmarks. At the peak, Brent surpassed the USD 100/bbl handle in July vs the c. USD 79/bbl territory seen around the June BoE. However, while pertinent, the spike has, at the time of writing at least, retraced significantly with Brent now down to around the USD 85/bbl handle - albeit the situation remains volatile.

While pertinent, the resurgence in Brent leaves it shy of the YTD high and beneath the Scenario C peak of USD 130/bbl. As a reminder, the peak under both Scenario A and B was USD 108/bbl; in brief, the main difference between the scenarios was the duration of the elevated energy price and second round effects. Scenario C was more severe, with "materially stronger" second round effects. Note, the 2026 peak for spot Brent actually occurred on the session of the April BoE, the last MPR update, at around USD 125/bbl.

Price action and scenario conditions do not suggest an imminent need to hike, as the BoE is likely still under Scenario A given the energy levels discussed and as second round effects do not appear to be visible. This was evidenced by the latest BoE DMP showing a moderation in the one- and three-year inflation views and, pertinently, a 0.1pp fall in year-ahead wage growth expectations. Further, the energy shock response saw a 9pp decline in the number of firms expected to increase prices in the next 12 months, to 55%, while 5% expect to lower prices (prev. 7%). However, the DMP and other data points (see below) can be caveated, as the July survey period for them did not encapsulate the period when Brent approached and then surpassed USD 100/bbl.

DATA: The most timely data set was the Flash July PMIs, however, they are caveated by the survey period running to just the 22nd of July, and therefore does not incorporate the escalation that took Brent above USD 100/bbl. The series spoke to a reduction in price pressures given "lower oil prices seen during the first half of the month", though, even with a 22nd July cutoff, the commentary highlighted that "inflationary pressures clearly remain elevated. For reference, the PMIs themselves were firmer than expected and increased across the board, lifting both Composite and Services into expansionary territory. Although dovish on prices, the robust headline could embolden the hawks to once again call for tightening.

June's CPI cooled by more than expected at a headline level, however the core Y/Y remained sticky at 2.6%, driven by airfares spiking which may well unwind. The moderation in the headline was a function of a fall in motor fuel prices during the period, and raw materials generally, which evidently may be unwound in July, though the survey period could factor once again. A series subject to numerous caveats, though the overall skew from it is dovish.

May's unemployment rate remained at 4.9%. The ONS remarked that the data showed a relatively steady labour market, though some of the measures remain indicative of softening; specifically, the HMRC payrolls figure and private wage growth. Overall though, the labour market softening that has been recently seen is seemingly plateauing, particularly as the vacancy drop is moderating. A series that chimes with the extended hold narrative. May's GDP lifted back into growth on a monthly basis, though only at 0.1%, strength driven exclusively by services.

COMMENTARY: On July 16th, Breeden said the economic outlook is "softish", and that slack remains in the labour market. Adding that the Middle East shock was less likely to become embedded and lead to inflationary dynamics that need the BoE to lean against; however, this comment was before Brent experienced much of its July rally, and thus may not be representative of her current view. Pill, 9th July, stuck to his hawkish tone regarding rates and pricing. Elsewhere, Mann returned to her historic 'activist' tone, with emphasis on one-year inflation expectations across H2-2026; as discussed, the most recent DMP showed a moderation in the one-year view, though the survey period caveats. Note, a FT sources piece suggested that the BoE is experiencing divisions, with some critical of the lack of clear signals, describing it as confusing and at risk of wrongfooting the bond market.

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