Will the Bank of England Buck the Trend with Rate Cuts in 2024?

The Bank of England (BOE) has kept its main interest rate at 5.25% again, with most of its policy members agreeing on this. They're following the lead of other big banks around the world in not upping borrowing costs for now. Despite the economy not growing much and inflation dropping, the BOE isn't planning on cutting rates anytime soon, maybe not before late next year.

If inflation starts acting up, they might even bump up the rate. BOE's boss, Andrew Bailey, reckons the current high rates are doing the trick to lower inflation. Meanwhile, the UK's economy is expected to stay flat next year, with only a tiny growth expected in 2025 and unemployment possibly inching up.

Even though Bank of England's Governor, Andrew Bailey, has been saying that it's too early to consider lowering interest rates, it seems the financial markets have different thoughts. After the Bank of England paused on increasing the rates recently, many traders are now betting on a different scenario.

This change in market sentiment underscores the importance of having a stop loss strategy in place, which can help investors manage their risks effectively amidst such fluctuating economic forecasts and monetary policy adjustments.

What Do The Markets Predict for 2024?

They are expecting the bank to cut the rates by three quarters of a point by the end of 2024, which could bring the benchmark rate down to 4.5%. This is quite a change in mood, considering Governor Bailey has been emphasising a "stay-high-for-longer" strategy to fight the high inflation, which is currently more than triple the Bank's 2% target.

Why Is This "Table Mountain" Strategy Significant?

The "Table Mountain" term, coined by BOE Chief Economist Huw Pill, likens the strategy to the flat-topped landmark near Cape Town, suggesting that rates would stay high for an extended period. But it looks like investors are growing wary of this approach.

Many fear that the UK economy might struggle under the pressure of high interest rates – the highest in 15 years. Although salaries are going up, unemployment is rising, the housing market is slowing down, and there are whispers of a recession already starting. Oliver Blackbourn, a portfolio manager at Janus Henderson Investor, expressed that the reluctance to push the UK yields higher hints at growing concerns for the UK economy's outlook.

How Did The Market React to BOE's Latest Decision?

Following the recent decision by the BOE, the market has fully priced in two quarter-point reductions starting in August 2024, with a possibility of a third one later in the year. This is a stark contrast to just two weeks ago, when only one cut was expected.

What Are The New Economic Forecasts By The BOE?

The bank now predicts a cut and expects the rate to be around 5% by the end of 2024. This change led to a global bond rally, with UK bonds leading the charge. The yield on 10-year gilts dropped significantly, indicating a reshuffling in market expectations.

Is The Global Monetary Policy Shifting?

It seems so. The BOE, along with the US Federal Reserve and the European Central Bank, appears to be re-evaluating growth projections. **The UK's GDP growth for 2024 is now expected to be "broadly flat", a downgrade from the previously anticipated 0.5% expansion.**

The forecast suggests **unemployment will rise from 4.3% to 5% next year**, with only a slight increase in post-tax household income in 2024. Amid these challenging conditions, Prime Minister Rishi Sunak will need to call an election by January 2025.

How Does Governor Bailey Explain This Downturn?

Bailey admits that the economic slowdown is mostly due to the bank's policies rather than changes in energy or food prices. He said that the restrictive policy is noticeable and admitted that it has contributed to the downturn, during a press conference last Thursday.

What's The Take On Future Rate Cuts?

Despite the concerns, the Monetary Policy Committee (MPC) at the BOE isn't in a hurry to cut the rates. In their recent vote, six members were for keeping the rates steady while three were for an increase to 5.5%. They made it clear that any rate reduction will only be considered when inflation is closer to the target.

What's the Final Takeaway?

The Bank of England's stance on maintaining higher interest rates is facing skepticism from financial markets, with many traders now expecting rate cuts by the end of 2024 due to concerns over the UK’s economic health.

Despite the Bank’s “Table Mountain” strategy aiming to combat high inflation, prevailing market conditions and recent BOE decisions have led to a contrasting expectation of lower rates in the near future. This market sentiment reflects growing apprehensions about the UK economy’s ability to thrive under prolonged high rates.

Even with this speculation, the Bank’s Monetary Policy Committee remains cautious, signaling that any rate adjustments would only be on the table once inflation is closer to their target. As the UK navigates through these economic challenges, the upcoming electoral mandate for Prime Minister Rishi Sunak adds an additional layer of complexity to the economic narrative.