

**HENRY COOK**  
*Europe Economist*

Economic Research Office

T: +44 (0)20 7577 1591

E: henry.cook@uk.mufg.jp

**MUFG BANK, LTD.**

A member of MUFG, a global financial group

## The BoE holds, for now

05 November 2021

The Bank of England kept monetary policy unchanged at its November meeting despite market expectations for a rate increase. It seems that a hike will come soon, however. The BoE is waiting for evidence on the fate of furloughed workers after the close of the Job Retention Scheme. Official labour market data for October will be available at the time of the MPC's next meeting in December but there were indications that any increase in unemployment might be quite limited. Further ahead, the BoE's latest CPI inflation and GDP projections might suggest a more gradual pace of tightening than previously expected.

### The BoE keeps policy unchanged, but hikes are coming

The current mix of inflationary pressures but looming consumer headwinds facing the UK economy is a tricky one for BoE. Governor Bailey and other MPC members had appeared to be laying the ground work for a rate hike with a series of hawkish comments. These culminated with Bailey saying three weeks ago that the BoE will "have to act" to contain inflation. Market participants accordingly brought forward rate hike expectations. There was no attempt from the BoE to temper these expectations around the pace of policy tightening. Added to the mix was last week's Autumn Budget announcement with more fiscal support than had been expected (see [here](#)).

However, the BoE left rates unchanged at its November meeting and the voting split (7-2) was not as tight as expected. The BoE made it clear that rate hikes are coming, though. The MPC noted that "provided the incoming data, particularly on the labour market, were broadly in line with the central projections in the November Monetary Policy Report, it would be necessary over coming months to increase Bank Rate in order to return CPI inflation sustainably to the 2% target". The mention of incoming data on the labour market refers to the outcome for unemployment following the end of the furlough scheme on 30 September. The early signs are that any effect on unemployment will be minimal (see below).

On timing, the phrasing above ("coming months") is open to interpretation. In the press conference Bailey then said that there will be "several meetings over coming months" – so not a commitment to the December meeting, or even the February 2022 meeting.

Further ahead, the BoE's new projections pointed to a less aggressive rate hike path than many had been led to expect. CPI inflation is expected to "fall back materially from the second half of next year". It is expected to fall below the BoE's target at the end of the forecast horizon. There were also downgrades to the BoE's GDP projections. GDP growth in 2021 was revised down from 7.25% to 7.0%, reflecting weaker household spending and weaker business investment growth.

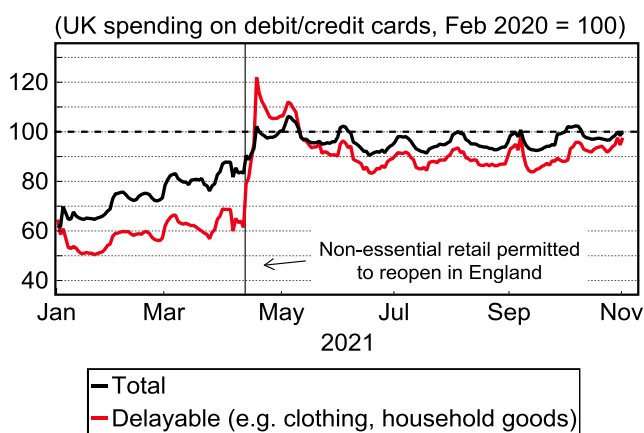
### Still waiting on the fate of furloughed workers

We'd suggest that the BoE's communications over the past few months have not exactly been a triumph. It would have been fairly straightforward to cool expectations by emphasising that previous comments had come with certain caveats. Muddled

messaging does bring to mind the ‘unreliable boyfriend’ tag that was given to the BoE in 2014 amid a lack of clarity about possible rate rise timings.

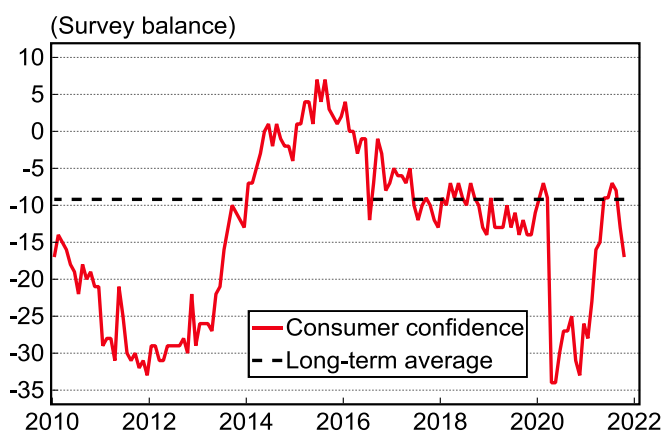
However, we’d also suggest that the BoE probably did make the right decision to sit on its hands for now. A rate hike had seemed hard to justify from a macro perspective. Tighter monetary policy would not help with global supply chain issues. There are also lingering signs that the post-pandemic domestic recovery might be faltering. High frequency data suggests that the pattern of muted spending seen through the summer (see [here](#)) has continued into October. Consumer spending has now started to weaken as households face a range of pressures including higher energy costs which are set to cut into disposable income.

### SPENDING REMAINS MUTED



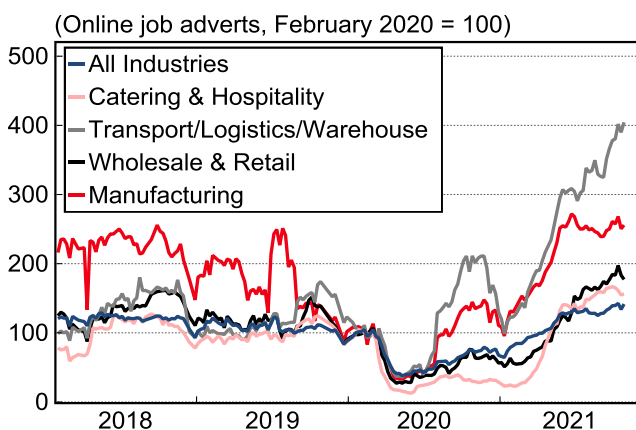
Source: ONS, MUFG Bank Economic Research Office

### CONSUMER CONFIDENCE IS WEAKENING



Source: GfK, MUFG Bank Economic Research Office

### JOB VACANCIES HAVE SOARED IN SOME INDUSTRIES



Source: ONS, MUFG Bank Economic Research Office

### THERE MAY NOT BE A SHARP POST-FURLOUGH RISE IN UNEMPLOYMENT



Source: ONS, MUFG Bank Economic Research Office

Most important from the BoE’s perspective is the fact that the labour market outlook is uncertain. The UK’s Job Retention Scheme (‘furlough’) ended on 30 September with over a million jobs still supported by the government. The degree of slack in the labour market is crucial for the BoE when considering how labour shortages in some sectors will affect the durability of overall wage growth.

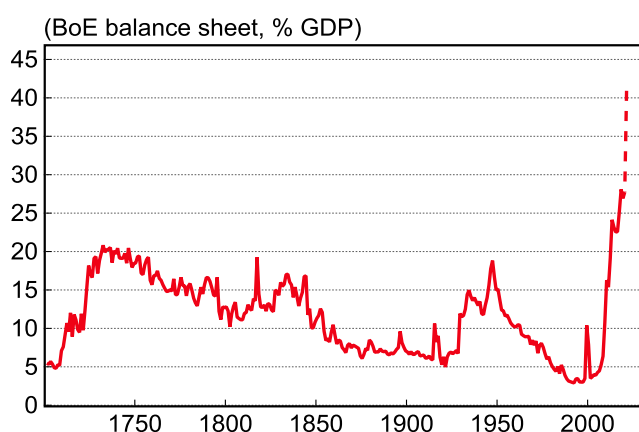
Data released after the decision was made suggest that a sharp rise in unemployment over coming months is unlikely. Provisional figures from the HMRC show that a total of 1.14m jobs were furloughed when the Job Retention Scheme closed on 30 September. The ONS's latest fortnightly business survey stated that 87% of furloughed staff returned to work once the scheme closed. This points to a relatively small increase in unemployment of around 150,000, which does not look unduly concerning at a time when job vacancies are historically high. If this is indeed reflected in the official labour market data for October (released a few days before the BoE's next meeting on 16 December) then wavering MPC members may be prompted to vote differently.

### Balance sheet reduction may be delayed

The decision at this meeting also has implications for the BoE's quantitative easing programme which is due to reach its target stock around the end of the year. The BoE believes that QE is state contingent: it is "particularly effective in times of market dysfunction" but less so in normal circumstances (see [here](#)). The BoE seems keen to make counter-cyclical balance sheet adjustments when possible and has suggested that subsequent unwinding of its balance sheet will be an integral part of the tightening process. The timing of this will depend on what happens with Bank Rate. At the 0.5% mark, the BoE would consider passive balance sheet reduction (i.e. letting maturing gilts roll off the balance sheet). It would consider actively selling some of the stock of purchased assets once Bank Rate has risen to at least 1%.

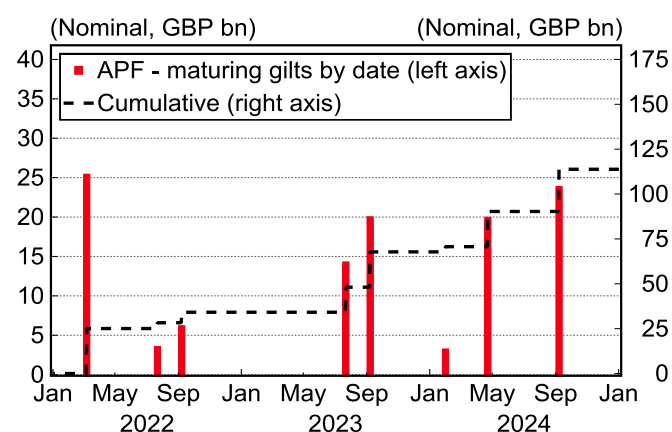
A hike at this November meeting and another in February could have taken Bank Rate to the 0.5% mark and a possible end to reinvestment. The redemptions profile is very bumpy though, with a rather large reinvestment due in early March and then not much else due until H2 2023. With rates on hold in November, it now seems more likely that this March bond *will* be reinvested, which might allow a smoother start to any balance sheet normalisation thereafter. That said, we note that a previous MPC member stated this summer that "without ... clear communications, even a small balance sheet reduction can result in a meaningful tightening of the policy stance" (see [here](#)). His erstwhile colleagues may want to revisit this after the recent messaging problems.

### THE BOE'S BALANCE SHEET IS HISTORICALLY HIGH



Source: BoE, MUFG Bank Economic Research Office

### A BUMPY PATH FOR REDEMPTIONS



Source: BoE, MUFG Bank Economic Research Office

## CERTIFICATION

The author(s) mentioned on the cover of this report hereby certify(ies) (or, where multiple authors are responsible, individually certify with respect to each security that the author covers in this report) that the views expressed in this report accurately reflect their personal views about the subject company(ies) and its (their) securities, and also certify(ies) that they have not been, are not, and will not be receiving direct or indirect compensation in exchange for expressing any specific recommendation(s) or view(s) in this report.

## DISCLAIMERS

### DISCLAIMERS

This report has been prepared by the Global Markets Research, US Rates and Credit Strategy desks within MUFG Bank, Ltd. ("MUBK") and MUFG Securities EMEA plc ("MUS(EMEA)") and may be distributed to you either by MUBK, MUS(EMEA) or by another subsidiary of the Mitsubishi UFJ Financial Group ("MUFG").

### Legal entities and branches

The securities related businesses within MUFG (together referred to in this presentation as "MUFG Securities") are: (1) MUFG SECURITIES EMEA PLC ("MUS(EMEA)") which is authorised in the United Kingdom by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA (FS Registration Number 124512). MUS(EMEA) has a branch office that is registered at Level 3, East Wing, The Gate, Dubai International Financial Centre, PO Box 506894, Dubai, UAE ("Dubai Branch"). The Dubai Branch is authorised to operate in the Dubai International Financial Centre ("DIFC") as a Non-DIFC Entity (Commercial License Number CL1656) and is regulated by the Dubai Financial Services Authority (Reference Number F002623); (2) MUFG Securities (Europe) N.V. ("MUS (EU)") which is authorized and regulated in the Netherlands by the Dutch Authority for the Financial Markets (AFM) and also regulated by De Nederlandsche Bank (DNB). MUS (EU) Paris Branch is regulated in France by the Autorité de contrôle prudentiel et de résolution (ACPR) and the Autorité des marchés financiers (AMF); (3) MUFG SECURITIES AMERICAS INC. ("MUSA") which is registered in the United States with the Securities and Exchange Commission ("SEC") and regulated by the Financial Industry Regulatory Authority ("FINRA") (SEC# 8-43026; CRD# 19685); (4) MUFG SECURITIES (CANADA), LTD. ("MUS(CAN)") is an investment dealers registered in Canada with the Ontario Securities Commission ("OSC") and in each province and territory of Canada, a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), and a member of the Canadian Investor Protection Fund ("CIPF"). Customers' accounts are protected by CIPF within the specified limits; (5) MUFG SECURITIES ASIA LIMITED ("MUS(ASIA)") which is incorporated in Hong Kong, licensed under the Hong Kong Securities and Futures Ordinance and regulated by the Hong Kong Securities and Futures Commission (Central Entity Number AAA889). MUS(ASIA) is registered as a foreign company under the Corporations Act 2001 of Australia ARBN No. 169 329 453; and (6) MUFG Securities Asia (Singapore) Limited ("MUS(ASIA)") which is licensed as an approved merchant bank by the Monetary Authority of Singapore. In respect of the financial services provided to wholesale clients in Australia, MUS(ASIA), MUS(EMEA), MUS(USA) and MUS(ASIA) are each exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 of Australia under the Australian Securities and Investments Commission Class Order Exemption CO 03/1099, CO 03/1103, CO 03/1100, and CO 03/1102, respectively. Each of MUS(ASIA), MUS(EMEA), MUSA, MUS(CAN), and MUS(ASIA) are regulated under the laws of Hong Kong, the United Kingdom, the United States, Canada and Singapore respectively, which differ from Australian laws.

MUFG Bank Ltd ("MUBK"), is a limited liability stock company incorporated in Japan and registered in the Tokyo Legal Affairs Bureau (company no. 0100-01-008846). MUBK's head office is at 7-1 Marunouchi 2-Chome, Chiyoda-Ku, Tokyo 100-8388, Japan. MUBK's London branch is at Ropemaker Place, 25 Ropemaker Street, London EC2Y 9AN, and is registered as a UK establishment in the UK register of companies (registered no. BR002013). The principal office of MUBK's Canada branch (MUFG Bank, Ltd., Canada Branch) is located at 200 Bay Street, Suite 1800, Toronto, Ontario, M5J 2J1, Canada. MUFG Bank's Canada branch is an authorized foreign bank branch permitted to carry on business in Canada pursuant to the Bank Act (Canada); Deposits with MUFG Bank Canada are not insured by the Canada Deposit Insurance Corporation. MUBK is authorised and regulated by the Japanese Financial Services Agency. MUBK's London branch is authorised by the UK Prudential Regulation Authority ("PRA") and regulated by the UK Financial Conduct Authority ("FCA") with limited regulation by the PRA.

### General disclosures

This report is for information purposes only and should not be construed as investment research as defined by MIFID 2 or a solicitation of any offer to buy or sell any security, commodity, futures contract or related derivative (hereafter "instrument") or to participate in any trading strategy. This report does not constitute a personal recommendation and does not take into account the individual financial circumstances, needs or objectives of the recipients. Recipients should therefore seek their own financial, legal, tax or other advice before deciding to invest in any of the instruments mentioned in this report.

Certain information contained in this report has been obtained or derived from third party sources and such information is believed to be correct and reliable but has not been independently verified. MUFG does not make any guarantee, representation, warranty or undertaking, express or implied, as to the fairness, accuracy, reliability, completeness, adequacy or appropriateness of any information or comments contained in this report. Furthermore the information may not be current due to, among other things, changes in the financial markets or economic environment. MUFG has no obligation to update any such information contained in this report.

The information contained in this report may contain forward-looking information ("FLI"). FLI is information regarding possible events, conditions, or results of operations that is based on assumptions about future economic conditions and courses of action and may be presented as either a forecast or a projection. This report is not intended to forecast or predict future events. Past performance is not a guarantee or indication of future results. Upon receipt of this report, each recipient acknowledges and agrees that any FLI included herein should not be considered material. Recipients should consult their own legal and financial advisers for additional information. Any prices provided herein (other than those identified as being historical) are indicative only and do not represent firm quotes as to either price or size.

This report is proprietary to MUFG and may not be quoted, circulated or otherwise referred to without our prior written consent. Notwithstanding this, MUFG shall not be liable in any manner whatsoever for any consequences or loss (including but not limited to any direct, indirect or consequential loss, loss of profits and damages) arising from any reliance on or usage of this report and accepts no legal responsibility to any investor who directly or indirectly receives this material.

### Country and region specific disclosures

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or is located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to any law, regulation or rule. Each entity and branch within MUFG is subject to distinct regulatory requirements and certain products and services discussed in this document may not be available in all jurisdictions or to all client types.

In this regard, please note the following in relation to the jurisdictions in which MUFG has a local presence:

- United Kingdom / European Economic Area (EEA): This report is intended for distribution to a “professional client” or “eligible counterparty” as those terms are defined in the rules of the FCA and PRA. In other EEA countries, this report is intended only for persons regarded as professional investors (or equivalent) in their home jurisdiction.

- United States of America: This report, when distributed by MUSA, is intended for Institutional Investors (“Institutional Accounts” as defined by FINRA Rule 4512(c)). When distributed by a non-US affiliate of MUSA, this report is intended for distribution solely to “major U.S. institutional investors” or “U.S. institutional investors” pursuant to Rule 15a-6 under the U.S. Securities Exchange Act of 1934, as amended. Securities referenced in this report may have been underwritten by MUSA and/or its affiliates. Nothing in this report should be considered an offer or solicitation of an offer to buy or sell securities or any other financial product or a commitment of any kind with respect to any transaction.

IRS Circular 230 Disclosure: MUFG Securities does not provide tax advice. Accordingly, any discussion of U.S. tax matters included herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with the promotion, marketing or recommendation by anyone not affiliated with MUSA of any of the matters addressed herein or for the purpose of avoiding U.S. tax-related penalties.

- Hong Kong: This report is only intended for distribution to a “professional investor” as that term is defined in the Securities and Futures Ordinance and should not be passed onto any other person.

- Singapore: This report is only intended for distribution to an “institutional investor”, “accredited investor” or “expert investor” as those terms are defined under regulation 2 of the Financial Advisers Regulation. It is solely for the use of such investors and shall not be distributed, forwarded, passed on or disseminated to any other person. Investors should note that, as a result of exemptions that apply when this report is distributed to “accredited investors” and “expert investors”, MUSS is exempt from complying with certain requirements under the Financial Advisers Act, including section 25 of the Financial Advisers Act (which requires a financial adviser to disclose all material information on certain investment products), section 27 (which requires a financial adviser to have a reasonable basis for making recommendations on investments) and section 36 (which requires a financial adviser to disclose any interests that it holds in securities that it recommends).

- Canada: When distributed in Canada by MUS(EMEA) or MUSA. MUS(EMEA) operates under an International Dealer Exemption from registration with the securities regulators in Alberta, British Columbia, Manitoba, Ontario and Québec. MUSA operates under an International Dealer Exemption from registration with the securities regulators in all Canadian Provinces and Territories. When distributed by MUS(EMEA) or MUSA, this report is only intended for a “permitted client” as that term is defined under the National Instrument 31-103 in Canada and is not intended for re-distribution to any other person. When distributed by MUS(CAN), this report is only intended for an “institutional client” as that term is defined under the IIROC dealer member rules and is not intended for re-distribution to any other person. The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Under no circumstance is the information contained herein to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. • Japan: This Note, when distributed by MUFG Securities affiliates located outside of Japan, is intended for distribution in accordance with Article 58-2 of the Financial Instruments Exchange Act 1948 (“FIEA”) i) to a “Financial Instruments Business Operator” engaged in “Securities-Related Business” as defined in the FIEA or ii) to the government, the Bank of Japan, a qualified financial institution defined in Article 209 of the Cabinet Office Ordinance Concerning Financial Instruments Business, Etc., or an Investment Manager.

When distributed by Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (“MUMSS”), this Note is intended for distribution to a “Professional Investor (tokutei-toushika)” as defined in the FIEA.

- United Arab Emirates: This report is only intended for distribution to a “Professional Client” or “Market Counterparty” as those terms are defined under the rules of the Dubai Financial Services Authority and only a person meeting the criteria for these terms should act upon this report.

- Australia: This Note is only intended for distribution to persons in Australia who are sophisticated or professional investors for the purposes of section 708 of the Corporations Act of Australia, and are wholesale clients for the purposes of section 761G of the Corporations Act of Australia. This Note is not intended to be distributed or passed on, directly or indirectly, to any other class of persons in Australia.

Other jurisdictions:

MUFG Securities also relies on local registrations or regulatory exemptions in order to undertake certain securities business in other countries. In Thailand, MUS(EMEA) has a derivatives dealer registration with the Securities and Exchange Commission, Thailand. In Canada, MUS(EMEA) and MUSA each operate under an international dealer exemption registered with the securities regulators. MUS(EMEA) operates under the exemption in Alberta, Quebec, Ontario, British Columbia and Manitoba. MUSA operates under the exemption in all Canadian Provinces and Territories..