20 June 2025

# Bank of England Review

## Setting the stage for an August cut

- **The BoE kept the Bank Rate unchanged at 4.25% as widely expected.**
- **The vote split was slightly to the dovish side but the statement revealed that BoE still favours a "gradual" and "careful" approach to easing monetary policy whilst highlighting elevated uncertainty.**
- **The market reaction was muted as expected.**

As expected, the Bank of England (BoE) decided to keep the Bank Rate unchanged at 4.25%. The vote split was 6-3 with 6 members favouring an unchanged decision with Dhingra, Ramsden and Taylor favouring a 25bp cut. This was slightly to the dovish side of expectations.

The BoE retained its previous guidance noting that *"a gradual and careful approach to the further withdrawal of monetary policy restraint is appropriate"*. The BoE likewise kept the wording that "*monetary policy will need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term have dissipated further"*. As we had expected, the MPC noted that "*there had generally been some greater signs of disinflationary pressures from the labour market*". Coupled with lower-than-expected growth we think this will prompt the BoE to continue easing monetary policy the coming quarters.

Overall, we think the communication today supports our call of a continuous gradual approach to the cutting cycle with the BoE repeating its previous guidance. We expect the BoE to stick to quarterly cuts, leaving the Bank Rate at 3.75% by YE 2025, which is aligned with market pricing. Markets are pricing 50bp for the remainder of the year. However, we highlight that the risk is skewed towards a swifter cutting cycle in 2025 and 2026 given the downside risks to growth and the labour market.

**Market reaction.** It was a muted reaction in EUR/GBP and UK rate space in line with our expectation. More broadly, we stay negative on GBP. An investment environment characterised by elevated uncertainty and a positive correlation to a USD negative environment, in our view, favours a weaker GBP. Tentative signs of a weaker growth outlook for the UK economy also acts as a headwind for GBP. We therefore expect EUR/GBP to move higher towards 0.87 on a 6-12-month horizon.

*Analyst, FX&FI Research*
Kirstine Kundby-Nielsen
+45 45 14 15 29
kigrn@danskebank.dk

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