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## PREVIEW: BOE JUNE INTEREST RATE DECISION

**Current Base Rate: 0.50%**

**Consensus: 0.50%**

The MPC is expected to keep rates on hold for a third month at its June meeting and adopt a 'wait and see' approach as economic indicators, show some signs of improvement in the economy.

It remains a moot point why the BOE chose not to deploy the additional GBP 25bn assigned for quantitative easing (QE) after a dovish May Inflation Report pointed to an uncertain outlook, as well as a 'relatively slow and protracted' recovery. The BOE may have felt conditions permitted it to be less aggressive on QE, especially in light of encouraging PMI services data just before the May meeting, and further reinforced by yesterday's reading. As such, the BOE might believe the economy has ridden out the worst of the recession. Therefore, the MPC could use this meeting to assess and reflect on measures undertaken thus far. Mervyn King himself said the effects of QE would become more apparent in the next 6 to 9 months.

There is a slim possibility the MPC may seek to increase the upper limit of their QE programme after the May meeting minutes revealed discussions on extending the mandate, although this is only likely to happen once the remaining GBP 25bn is released. Moreover, the most likely scenario, and one that has been priced into the market, is that the BOE will stick to its current GBP 125bn target.

However, should the MPC decide it needs to increase the total size of its asset purchase program then gilts are likely to rally and sterling could spike lower as the BoE signals a cautious outlook.

Some analysts speculate the BoE might be more optimistic on the economy now and therefore gesture a shift in strategy. This could signal the end of QE and also lay the foundation for a tightening in monetary policy, though the probability of this happening is quite low. Should the MPC surprise the market, then GBP should rally, extending on recent gains, and Gilts should sell off, potentially sending yields to new 2009 highs.

Finally, it is worth noting the shadow MPC at the Institute of Economic Affairs voted unanimously to keep rates unchanged and keep QE at the current GBP 125bn target and the Times MPC warned the BoE to stay alert to dangers that could suppress an economic recovery.

Sources: RTRS/BBG/Times/4cast