BEA東亞銀行

Market Commentary

6 November 2026

BoE Adopts a More Hawkish Tone as Inflation Remains Sticky

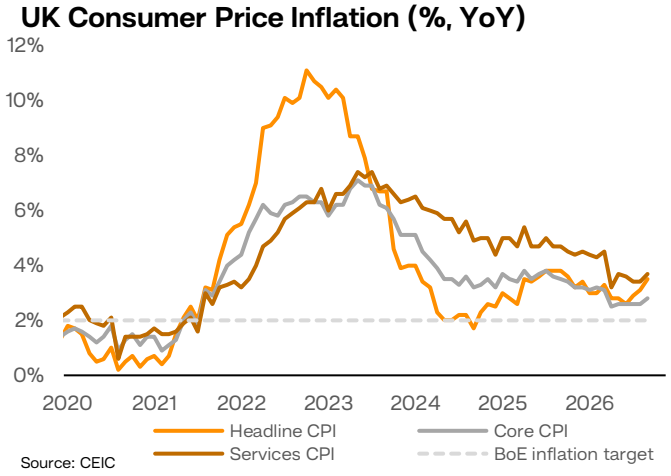


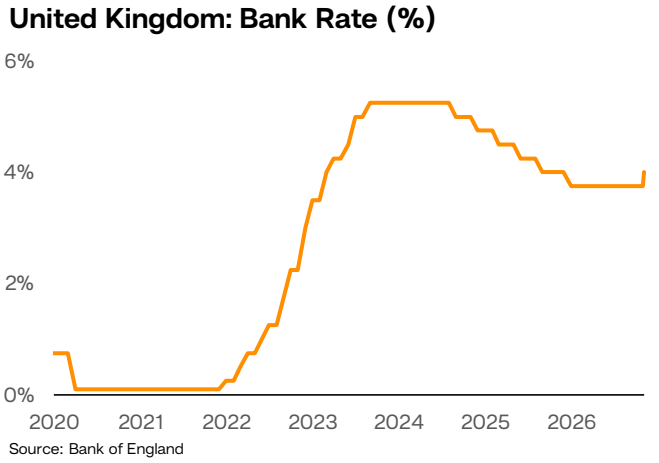
Summary:

- The BoE raised the Bank Rate by 25 bps to 4.00% at its November meeting in an 8-1 vote, with the sole dissenter favouring a larger 50-bp hike.
- Updated economic forecasts highlight persistent inflation risks, with CPI inflation projections revised higher to peak at 4.9% YoY in Q2 2027.
- Market pricing suggests that the probability of a hike in December remains roughly balanced. The pace and extent of further tightening will likely depend on future inflation developments.

The Bank of England (BoE) raised the Bank Rate by 25 basis points (bps) to 4.00% at its November meeting in an 8-1 vote. It marked the first hike in more than 3 years, reflecting elevated inflation risks and firmer-than-expected economic activity. Catherine L Mann was the sole dissenter, favoring a larger 50-bp hike. While the decision was widely anticipated, the vote split pointed to a hawkish bias among some members of the Monetary Policy Committee (MPC). Meanwhile, Governor Andrew Bailey emphasised a more conditional approach to further tightening, noting that future decisions will depend on incoming evidence on energy prices and inflation dynamics.

The BoE revised up its inflation outlook in response to higher energy prices. Since the July Monetary Policy Report, Brent crude oil futures and UK natural gas futures have increased by 38% and 81%, respectively. Headline CPI inflation accelerated to 3.5% year-on-year (YoY) in September, driven by higher fuel and household energy prices. The BoE now expects CPI inflation to rise further to 4.5% YoY in Q1 2027 and peak at 4.9% in Q2 2027, before gradually easing as the direct effects of higher energy prices fade and restrictive monetary policy weighs on inflation.





While evidence of significant second-round effects remains limited, the risk of inflation persistence has increased. A majority of MPC members underscored the importance of guarding against potential second-round effects stemming from higher energy prices and other global supply shocks. The November 2026 Monetary Policy Report provided an assessment of second-round effects from the rise in energy prices. While indicators of firms' pricing behaviour and wage growth do not currently signal large second-round effects, these pressures typically emerge with a lag. Moreover, several indicators suggest that inflationary pressures have become somewhat more pronounced relative to the BoE's assessment in July. This suggests that inflation may prove more persistent than previously expected.

The BoE also revised up its growth outlook. Economic activity has proven firmer-than-expected in 2026, supported by solid business-to-business services and robust business investment. Against this backdrop, the BoE raised its GDP growth forecasts from 1.1% to 1.6% for 2026 and from 1.1% to 1.3% for 2027. Overall, these revisions point to a steadier, albeit still moderate growth outlook. Nonetheless, the somewhat tighter fiscal stance announced in Budget 2026 may weigh on economic activity, as the government seeks to keep public sector borrowing under control.

Policy Outlook

There remains scope for further monetary tightening. The November meeting minutes indicated that MPC members stand ready to tighten policy further should inflation risks continue to intensify. Although economic activity has been more resilient than previously expected, considerable uncertainty remains, particularly surrounding geopolitical tensions in the Middle East and their potential impact on energy prices. The pace and extent of any additional tightening will likely depend on incoming inflation data, evidence of second-round effects, and the evolution of energy prices.

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