UK – Week Ahead

w/b: 15/09/25

Overview The BoE's MPC meeting (Thurs) will dominate the week, along with President Trump's visit to the UK.

Key Data Releases
- UK CPI (Tues), Labour Market data (Weds) and Retail Sales (Fri) are the week's key releases.
- **Consensus expects** CPI to fall to 3.6%yoy (from 3.8%) and the unemployment rate to remain at 4.7%. Wage growth is expected to edge lower, continuing its recent moderation. While Retail Sales are currently expected to rise modestly, we will watch out for Barclays in-house forecast using its proprietary Barlaycard data.
- **We expect** xxx
- **BoE speakers** Bailey-led Press Conference (Thurs), with MPC Minutes, alongside the MPC decision and Policy Statement. There are no new macro forecasts at this meeting.
- **Politics** The UK Government has been weakened in recent weeks, raising the prospect of fiscal slippage in the run-in to (and after) the Nov 26 Budget.

Week in Review

Last week saw the MPC hold Bank Rate at 4.0%, as widely expected, on a 7-2 vote. The accompanying Policy Statement noted that medium-term inflation risks were in focus (tilting hawkish). The MPC also lowered its annual pace of Balance Sheet reduction (Quantitative Tightening) from GBP100bn to GBP70bn, also in-line.

2y and 5y OIS edged higher on the day, while GBPUSD weakened modestly (Figure 1). Gilt yields also rose slightly.

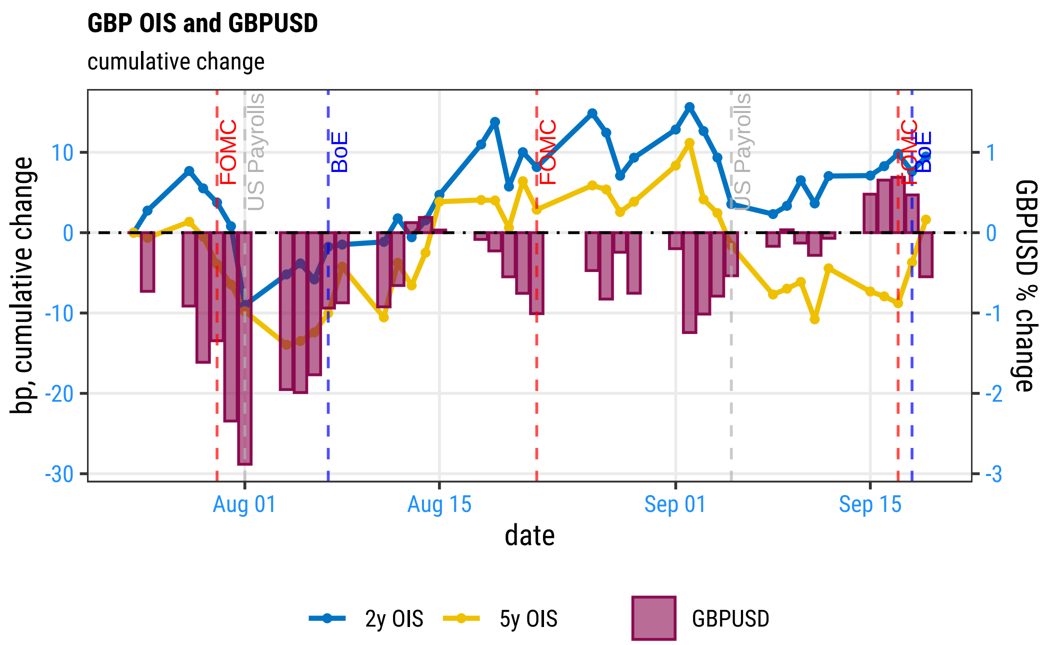

Figure 1: OIS and Sterling

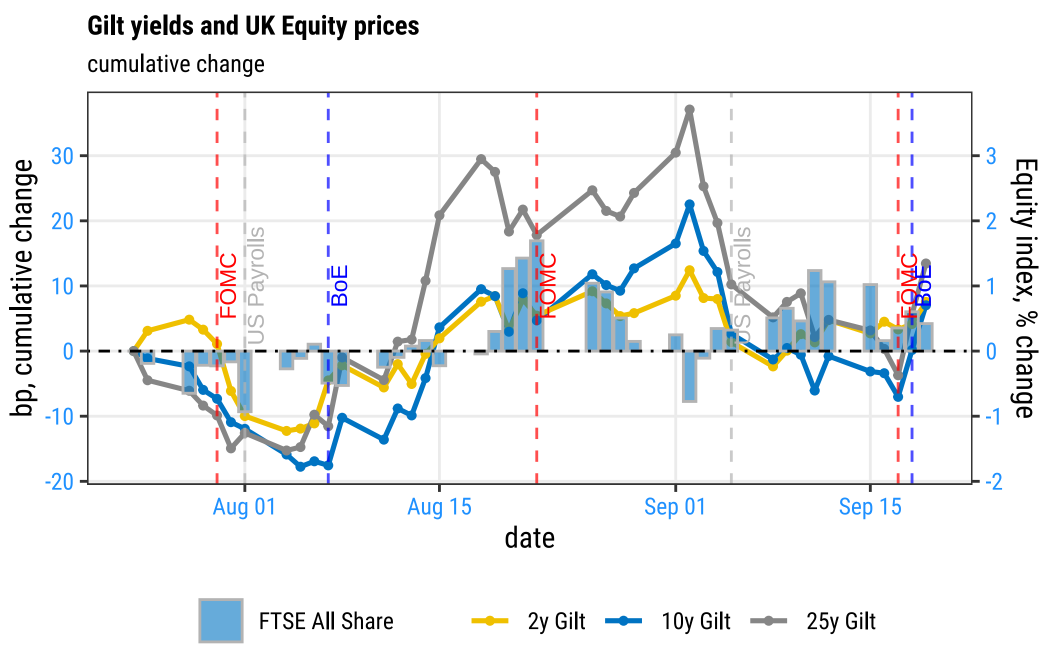

Figure 2: Gilts and Equities

Week Ahead Preview

UK July / August Labour market (Tues, 16.09)

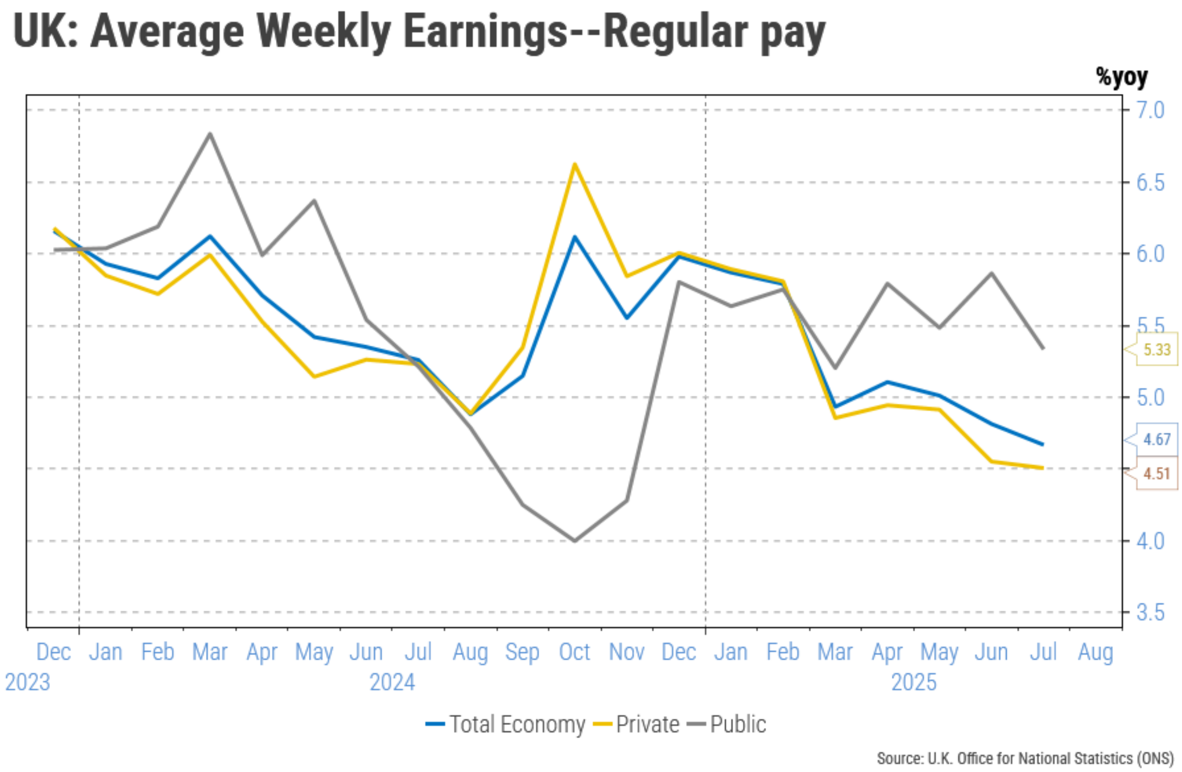

Figure 3: UK Wage growth forecasts

UK August CPI (Weds, 17.09):

UK August Retail Sales (Fri, 19.09):

UK Macro narrative

Starting point The UK faces an ongoing inflation problem of above-target inflation; and while unemployment is historically low, it is rising and starting to open up some slack. Facing this 'stagflationary' impulse, a fiscal tightening (of around 3% of GDP) is planned over coming years, but will be politically difficult to implement – implying a risk of 'fiscal fatigue' that induces some bond market volatility.

Policy The BoE requires some degree of slack to open-up if it is to ensure a return of CPI to its 2.0% target, from 3.8% currently. Facing this trade-off between the speed of returning inflation to the 2.0% target and degree of economic slack, we expect the BoE to hold Bank Rate at 4.0% until the new year to raise confidence in a declining inflation path.

The Autumn Budget (Nov 26) is a key event, where fiscal policy will be tightened by around 1% of GDP to meet HMG's fiscal rules – although how front-loaded is that tightening is much less clear (an additional freezing in personal allowances will be back-loaded into 2028 and 2029). Sector-level equity market impacts are hard to anticipate but financials are at risk. If some of the tax rises are front-loaded then it will encourage the BoE to lower Bank Rate by weighing on growth and inflation, bringing Bank Rate closer to a neutral rate which we assume is 3.5%. We expect a next rate cut to 3.75% takes place in February, with market pricing implying some risk of a rate cut before then.

Outlook and Risks The MPC is divided on the timing of the next rate cut. Differences in view on the need to allow for uncertain supply-shocks that weigh on the economy's speed llimit or that may have affected wage- and price-setting are key sources of division. If wage growth moderates as expected, and partly because businesses doubt their ability to pass on higher wages into higher prices, then the MPC will be more comfortable with a rate cut. If wage growth remains elevated, and/or if inflation expectations become unanchored, then the MPC will want to see more evidence of slack before cutting rates.

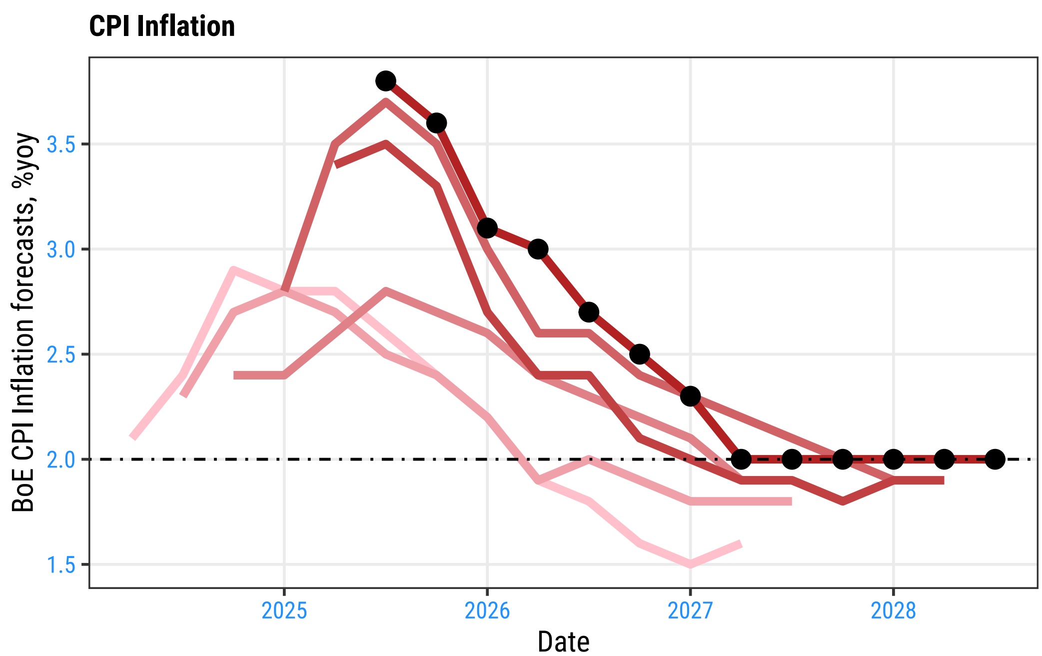

Figure 4: Successive BoE Inflation Forecasts

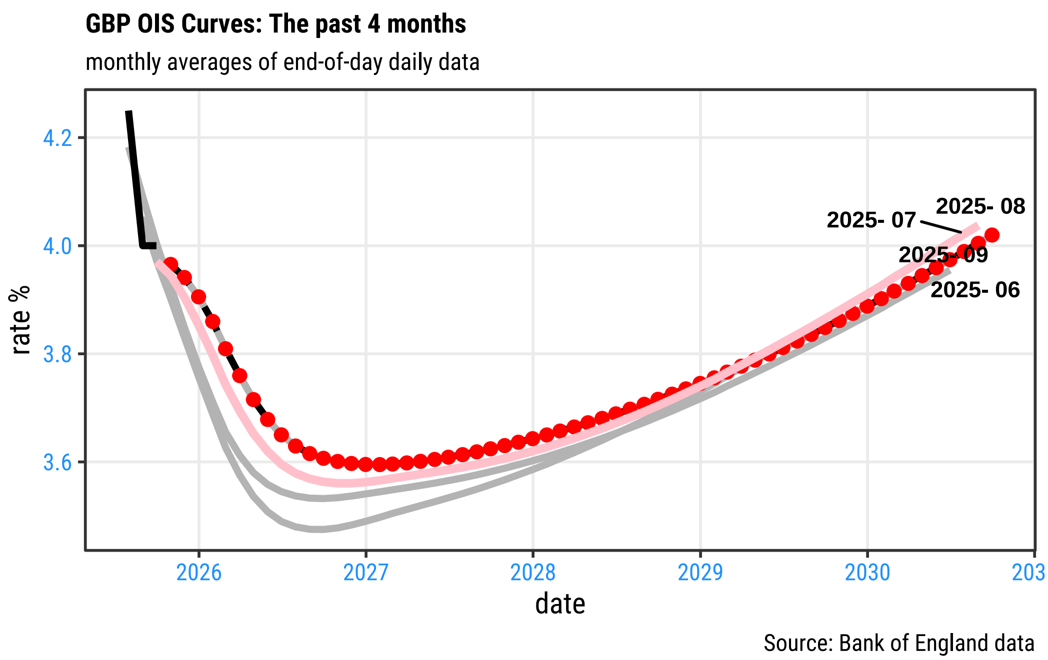

Figure 5: Successive OIS Curves