

MACRO RESEARCH INSIGHT

CROSS-ASSET ANALYSIS

UK ASSETS

September 2026



THE BOE MAINTAINS ITS TIGHT MONETARY POLICY STANCE – Part 2

- ✓ Moderate recovery in services PMI
- ✓ Labor market stabilizes at 4.9%
- ✓ Gradual improvement in consumer sentiment
- ✓ Headline CPI inflation picks up again to +3.1% in August
- ✓ BoE maintains strict status quo (3.75%) in a split vote (6-3)

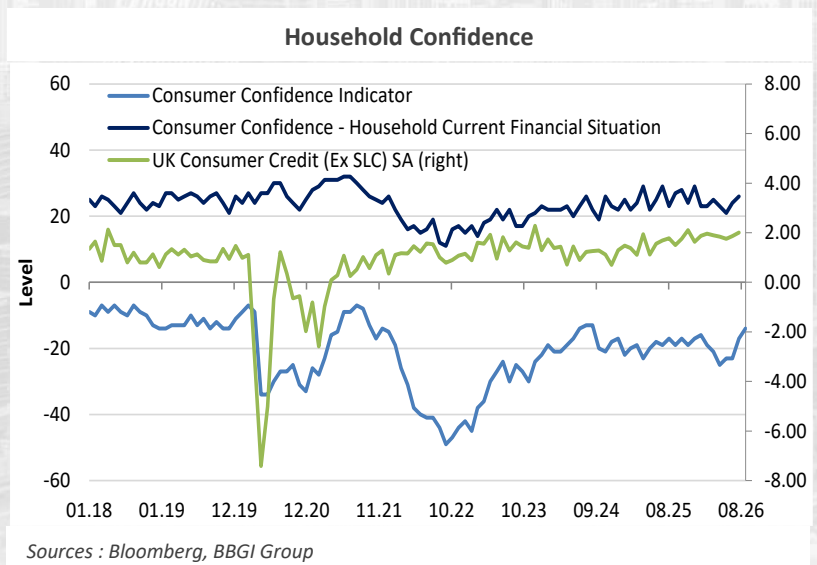
THE BOE MAINTAINS ITS TIGHT MONETARY POLICY STANCE – Part 2

Moderate PMI Recovery Rules Out Sharp Downturn

The latest survey data confirm a clear rebound in U.K. economic activity following the spring low point. Led by strong demand for technology and financial export services, the services PMI rose to 52.5 in August, lifting the overall composite PMI to 52.5. This composite rebound confirms a scenario of moderate expansion while ruling out a sharp late-2026 economic contraction. Although high financing costs keep construction in a slow stabilization phase at 44.3, public infrastructure spending is helping cushion the real estate sector. Meanwhile, manufacturing held at 51.2 despite elevated energy input costs.

Labor Market Stabilizes with Moderating Wage Growth

The U.K. labor market stabilized over the summer as unemployment held steady at 4.9%, dispelling widespread fears of a breach above 5.2%. Net job creation returned to positive territory while the job openings-to-unemployed ratio recovered to its historical average of 0.65. Year-over-year wage growth moderated to +3.5%, removing a major inflation threat for monetary policymakers. This wage deceleration maintains real purchasing power without triggering a secondary wage-price spiral. Consequently, recruiters report a significantly more balanced hiring environment across primary sectors.



Surging Consumer Confidence Strengthens Household Sentiment

The GfK consumer confidence index posted a 9-point rebound to -14 in August, marking its sharpest single-quarter increase since 2024. Easing fears over autumn energy bills and job security helped lift household personal finance expectations back into positive territory. Relief over household balance sheets triggered a noticeable recovery in major purchases and automotive sales. Simultaneously, a high household savings rate of 10.2% provides a resilient financial buffer against future price shocks. Moderate credit card debt growth confirms consumers are managing unsecured debt prudently.

Energy Costs Drive Headline CPI Rebound to +3.1%

Headline consumer price inflation accelerated to +3.1% year-over-year in August, driven entirely by higher fuel at the pump and energy costs. However, core CPI remained unchanged at +2.6%, while services inflation continued its steady deceleration down to +3.4%. Financial markets view the inflation uptick as a temporary energy-driven spike rather than a core price resurgence. Input producer price growth eased dramatically from spring peaks of +7.7% down to +3.7%. Furthermore, long-term inflation swap expectations remain firmly anchored at 3.25%, confirming central bank credibility.

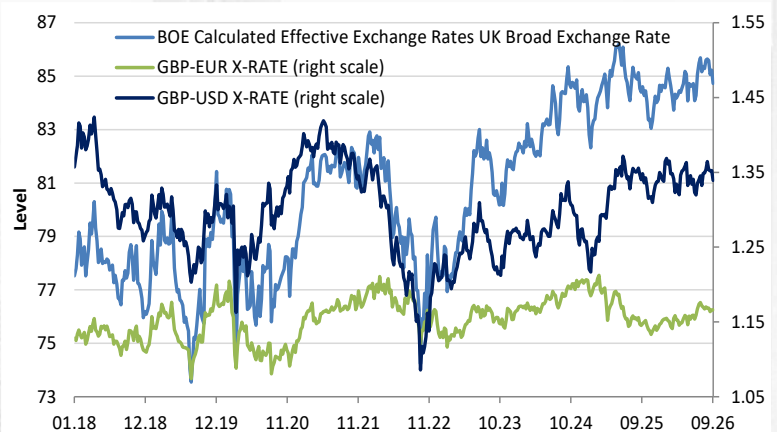
Bank of England Holds Rates at 3.75%

The Monetary Policy Committee voted 6 to 3 to keep the Bank Rate at 3.75%, adopting a distinctly hawkish posture that rules out rate cuts in 2026. Three committee members voted for a 25-basis-point rate hike, citing strong Q2 GDP performance and energy-driven upside risks to inflation. Governor Andrew Bailey confirmed that persistent exogenous shocks prevent any monetary easing before mid-2027. In parallel, the BoE will maintain active quantitative tightening by reducing its Gilt portfolio by £46 billion annually. This policy stance preserves restrictive financial conditions to ensure inflation expectations remain anchored.

Hawkish Policy Framework Secures Price Stability

Futures markets now price in zero probability of a Bank of England rate cut through the end of the year. Central bankers are prioritizing the permanent containment of inflation expectations over short-term growth acceleration. Maintaining the 3.75% benchmark rate establishes a firm monetary floor to absorb ongoing energy volatility. While elevated borrowing costs will continue to weigh on construction and capital-intensive sectors, the policy stance guarantees structural currency and price stability. Ultimately, the BoE's uncompromising stance positions the U.K. economy for a durable, inflation-tested recovery.

Government Rates (2y-10y)



Sources : Bloomberg, BBGI Group

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