WEEKLY ANALYSIS

THE BOE MAINTAINS ITS TIGHT MONETARY POLICY STANCE

Resilient GDP in Q2 (+0.4%). Moderate recovery in services. Employment has stabilized. Confidence is improving. Inflation is picking up again. The BoE is taking a hawkish stance. Bond yields are tight. The pound is strong. The housing market has calmed down.

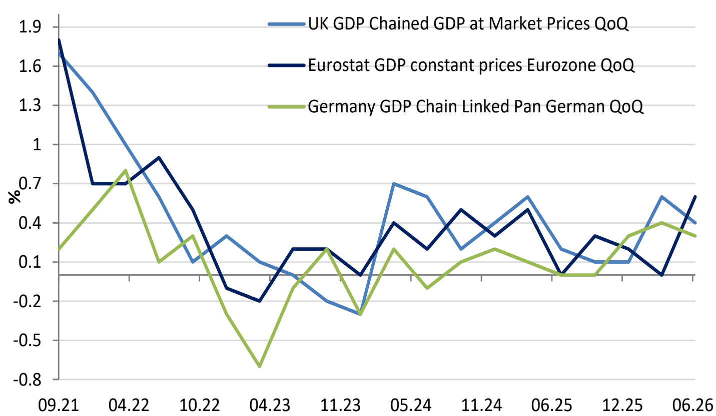
Key points

- The ONS confirms growth of +0.4% in Q2 2026
- Economy avoids contraction despite the shocks
- 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)
- Persistent tensions on sovereign yields
- Interest rate support for the British pound remains
- Direct real estate stabilizes
- "Value" profile protection against high interest rates

The ONS confirms growth of +0.4% in Q2 2026

The Bank of England had feared a sharp downturn in the spring due to geopolitical tensions in the Middle East. The revised figures released by the ONS show greater resilience than expected: U.K. GDP grew by +0.4% in Q2 2026, building on the +0.6% growth recorded in Q1. Over the first half of the year, UK growth outpaced that of the eurozone (+0.2%) and Germany (+0.3%), driven by particularly strong business services in June (+0.3%) and July (+0.4%). Household consumption expenditure (+0.2%) and business fixed investment (+0.5%) maintained a positive pace, while foreign trade continued to act as a slight drag, with a deficit of 2.1% of nominal GDP. In the service sector, information services, communications, and business-to-business services posted a solid rebound. Per capita GDP rose by 0.4% over the quarter, confirming a net gain in aggregate purchasing power. The ONS made crucial methodological corrections to the seasonal adjustment coefficients from the beginning of the year, thereby resolving the controversies that had emerged in May. Analysts in the City and economists at the Bank of England now acknowledge that the underlying momentum in the first half of the year reflected a genuine structural recovery in private demand before the resurgence of energy supply shocks. The U.K. economy thus proved to be significantly more resilient than initial models had predicted at the start of the summer. The consensus among forecasters had greatly underestimated the resilience of the U.K. business services sector in the face of tariff shocks. The revision of ONS data supports a "soft landing" scenario in which private demand absorbs the monetary shock without faltering. The growth differential in favor of the United Kingdom relative to Germany (+0.4% vs. +0.3% in Q2) lends further credence to the fundamental strength of British GDP for the second half of the year.

Quarterly GDP growth-United Kingdom



Sources: Bloomberg, BBGI Group SA

The economy avoids a contraction despite the shocks

Despite the ongoing conflict in the Middle East and the price of Brent crude oil remaining above $90–95 per barrel, the British economy managed to avoid the scenario of severe stagflation that had been feared in June. The adjustment was achieved through a rapid reorganization of industrial supply chains and temporary fiscal support for businesses' energy bills. Although natural gas and fuel prices remain extremely high, weighing on factories' operating margins, economic activity stabilized over the summer months. Retail sales showed a moderate recovery in July and August, buoyed by a resilient labor market and wage settlements that now offset current inflation. Rising import costs continue to erode the