



Treasury Management Quarterly Report to 31 December 2023

Cyngor Bwrdeistref Sirol



1.0 INTRODUCTION

Treasury management activities are the *'management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.'* (Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice (2021) (CIPFA TM Code).

The definition of 'Investments' includes:

- Treasury Management investments (held for the prudent management of financial affairs), and
- non-Treasury Investments, undertaken as part of a Capital Strategy either in the course of provision of services; or made for commercial reasons purely to make a financial gain. These are managed outside of normal treasury management activity.

The Council carries out its treasury management function in accordance with the CIPFA TM Code and the legal obligation under the Local Government Act 2003 to have regard to both the CIPFA TM Code and Welsh Government Guidance.

The Council has an integrated Treasury Management Strategy where borrowing and investments are managed in accordance with best professional practice, which is assessed either from internal expertise or consultation with our external advisers. The Council will look to borrow money if needed to either meet short term cash flow needs or to fund capital schemes approved within the capital programme. Therefore, any actual loans taken are not generally associated with particular items of expenditure or assets.

The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Section 151 Officer. The Governance and Audit Committee are responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies and regular reports will be presented to the Committee for their consideration.

2.0 ECONOMIC CONTEXT

UK inflation rates finally started to decline, mirroring the sharp but earlier drop seen in the Eurozone and US. Despite the fall, the Consumer Price Index (CPI) remained substantially in excess in the Bank of England's (BoE) 2% target, at 3.9% for November 2023. Market expectations for further rises in Bank Rate fell from October through to year end, indicating that the 5.25% level reached in August 2023 was indeed the peak for Bank Rate.

Economic growth in the UK remained weak over the period, edging into recessionary territory. In the 3rd quarter of the 2023 calendar year, the economy contracted by 0.1%, following no change in the 2nd quarter. Monthly Gross Domestic Product (GDP) data

showed a 0.3% contraction in October, following a 0.2% rise in September. While other indicators have suggested a pickup in activity in the subsequent months, quarter 4 GDP growth is likely to continue to be weak.

Revised July data showed the unemployment rate increased to 4.2% (3mth/year) while the revised employment rate rose to 75.7%. Pay growth edged lower as the previous strong pay rates waned; total pay (including bonuses) growth was 7.2% over the three months to October 2023, while regular pay growth was 7.3%. Adjusting for inflation, pay growth in real terms were positive at 1.3% and 1.4% for total pay and regular pay respectively.

Inflation continued to fall from its peak as annual headline CPI declined to 3.9% (down from 4.6%) in November 2023. The largest downward contribution came from energy and food prices. The November core rate also fell to 5.1% from 5.7%. However, the December figure rose, going against most expectations to 4% mainly driven by tobacco and alcohol prices.

The BoE's Monetary Policy Committee held Bank Rate at 5.25% throughout the period, although a substantial minority continued to vote for a 25 basis point rate rise. The Bank continues to tighten monetary policy through asset sales, as it reduces the size of its balance sheet. Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data showed that higher interest rates were working in the UK, US, and Eurozone.

Following the December Monetary Policy Committee meeting, Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% is the peak in Bank Rate. Short term risks are broadly balanced, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

The lagged effect of monetary policy together with the staggered fixed term mortgage maturities over the next 12-24 months means the full impact from Bank Rate rises are still yet to be felt by households. As such, while consumer confidence continued to improve over the period, it is likely this will reverse at some point and spending will struggle. Higher rates will also impact exposed businesses; according to S&P Global/CIPS UK survey data, the UK manufacturing and construction sectors contracted during the quarter. The services sector recovered, however, with the Purchasing Managers Index (PMI) rising strongly in December, possibly due to improving consumer confidence.

Arlingclose maintained the advised maximum duration limit for all banks on its recommended counterparty list to 35 days over the period.

In October, Moody's revised the outlook on the UK's Aa3 sovereign rating to stable from negative. This led to similar rating actions on entities that include an element of government support in their own credit ratings, including banks and housing associations. Local authorities were, however, downgraded on expectations of lower government funding.

3.0 EXTERNAL DEBT AND INVESTMENT POSITION

The Council's external debt and investments at 31 December 2023 is set out in Table 1 below. The Council held £99.65 million of Long Term Borrowing comprising:

- Public Works Loan Board (PWLB - central government) at fixed rates and duration
- Lender's Option Borrower's Option (LOBO) which may be rescheduled ahead of their maturity of 22 July 2054 (no call was made in January 2024)
- £2.78 million of Salix interest-free loans

In addition, the Council had £64.5 million of investments for treasury management purposes and £5.84 million of investments for commercial purposes.

Table 1: Council's external debt and investment position as of 31 December 2023

Investments for Treasury Purposes	Principal as at 31/03/2023 £m	Principal as at 30/12/2023 £m	Average Rate 30/12/2023 %
External Long Term Borrowing			
Public Works Loan Board	77.62	77.62	4.70
Lender's Option Borrower's Option	19.25	19.25	4.65
Salix Loans (interest Free)	3.06	2.78	NIL
Total External Long Term Borrowing	99.93	99.65	4.69*
Other Long Term Liabilities			
Private Finance Initiative**	13.90	12.89	
Other Long Term Liabilities	0.23	0.10	
Total Other Long Term Liabilities	14.13	12.99	
Total Gross Debt	114.06	112.64	
Investments for treasury management purposes			
Debt Management Office	7.50	NIL	NIL
Local Authorities	53.00	53.00	4.48
Money Market Funds (instant access)	NIL	3.00	5.35
Banks	14.00	8.50	5.08
Total Treasury Investments	74.50	64.50	4.60
Net Debt	39.56	48.14	

Investments for Commercial Purposes	Fair Value as at 31/03/2023 £m	Anticipated return 31/12/2023 £m
Investments	5.84	0.460

* Excluding Salix loans which are interest free

** (PFI) arrangement for the provision of a Secondary School in Maesteg 10.25 years remaining term

The current profile of repayment of the Council's long-term debt is set out in the Liability Benchmark chart below. The table assumes that the Public Works Loan Board and Lender's Option Borrower's Option loans will be repayable on their maturity date. However, although shown as maturing in 2054 the £19.25 million of Lender's Option Borrower's Option loans may be rescheduled at their next maturity date of 22 July 2054.

PWLB lending criteria requires that the Council does not invest purely for financial return if it wishes to access any new PWLB borrowing. The CIPFA TM Code sets out that it is not prudent for local authorities to invest for financial return.

All borrowing by the Council is as a single pool of debt rather than having loans specific to individual schemes. Where a Council finances capital expenditure by debt, it must put aside revenue to repay that debt in later years, known as Minimum Revenue Provision (MRP). The forecast MRP that will need to be set aside for 2023-24 is £3.298 million.

Liability benchmark

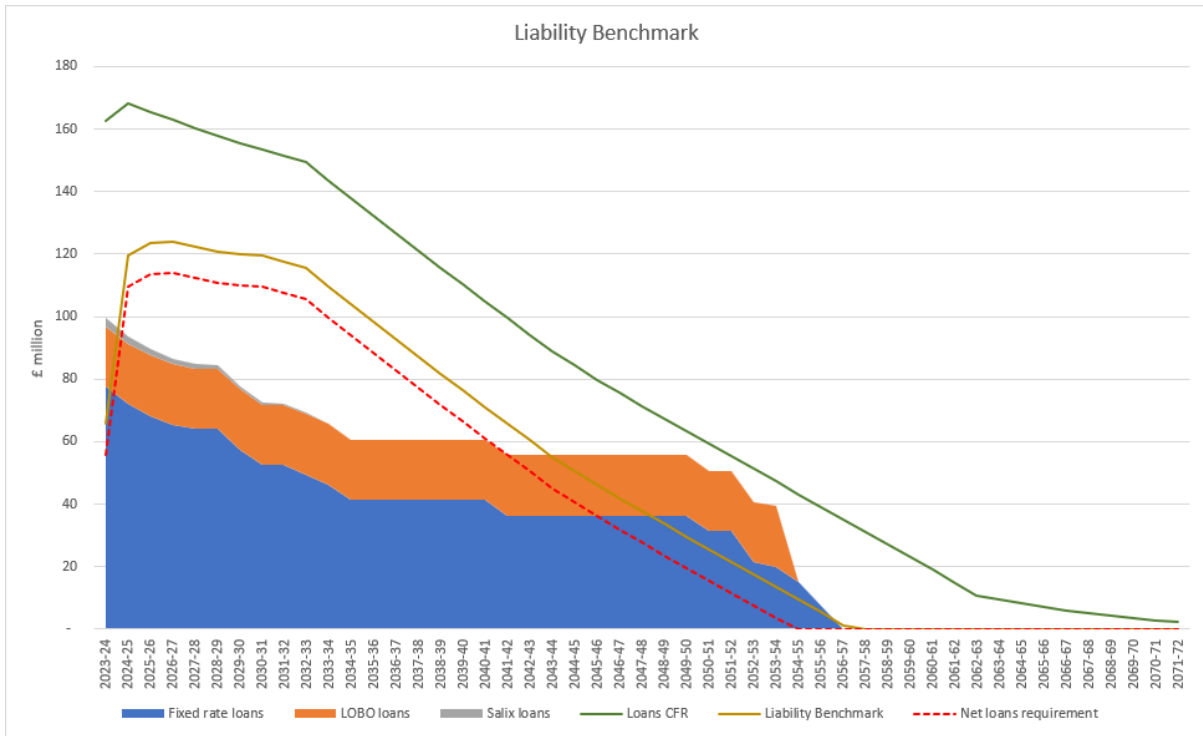
The liability benchmark is a tool which helps to assess the lowest level of borrowing the Council needs, taking into account available cash resources to fund capital expenditure in the short term. A minimum level of investments is factored into the calculation, set at £10 million, which are held as reasonably liquid to ensure the Council has available cash resources to meet day-to-day cash flow requirements. Forecast borrowing needs are based on capital expenditure estimates and available useable reserves. The underlying need to borrow to fund capital expenditure (known as the Capital Financing Requirement or CFR) is the amount of capital expenditure which is not funded via grants, capital receipts or contributions from revenue and earmarked reserves.

Table 2 below shows the Capital Financing Requirement and the calculation of the liability benchmark. It is important to note that the graph is based on the current approved capital programme and the borrowing associated therewith. Any new schemes which require debt financing will increase the CFR and loans requirement.

Table 2: Liability benchmark

	31 March 2023 actual	31 March 2024 estimate (TMS)	31 March 2024 forecast	31 March 2025 forecast	31 March 2026 forecast
	£m	£m	£m	£m	£m
Capital Financing Requirement	176.21	184.81	175.58	185.75	182.45
Less: Other debt liabilities	(13.90)	(12.97)	(12.97)	(11.97)	(10.90)
Loans Capital Financing Requirement	162.31	171.83	162.61	173.78	171.55
Less: Balance Sheet Resources	(139.06)	(84.14)	(94.20)	(53.95)	(47.63)
Plus: Liquidity allowance	10.00	10.00	10.00	10.00	10.00
Liability Benchmark	33.25	97.69	78.41	129.83	133.92

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its **current** capital plans while keeping treasury investments at the minimum level to manage day-to-day cash flow.



Currently it is forecast that the Council may need to consider borrowing long term in 2024-25 although this is based on a number of assumptions including the forecast capital programme expenditure and the level and use of reserves.

The Section 151 Officer will monitor and update the liability benchmark assumptions on an on-going basis and report any significant changes within the treasury management monitoring reports to Cabinet, Governance and Audit Committee and Council as appropriate. This could be as a result of changes in the level of usable reserves at year end, slippage within the Capital Programme or changes within the working capital assumptions which may affect the Council's need to take new long-term borrowing.

4.0 BORROWING

As at 31 December 2023 the Council held £99.60 million of Long-Term Borrowing, £96.87 million of which is fixed long term loans as part of its strategy for funding previous years' capital programmes.

The Council has previously raised the majority of its long-term borrowing from the Public Works Loan Board (PWLb). This was the source of funding the last time the Council took long-term borrowing of £5 million in March 2012. The Council will

however consider long term loans from other sources including banks, pension funds and other local authorities if appropriate. The Council will also investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA TM Code.

The Council has loans from PWLB maturing within the next 3 financial years that it will need to repay. Whilst at present it is anticipated that the Council will have resources to repay these loans, it will be dependent on the level of cash resources available. The value of the loans due to be repaid over the next 3 years is shown in Table 3.

Table 3: Value of PWLB maturing debt

	2023-24 £ million	2024-25 £ million	2025-26 £ million
Value of maturing debt	Nil	5.580	3.709

Maturity structure of borrowing

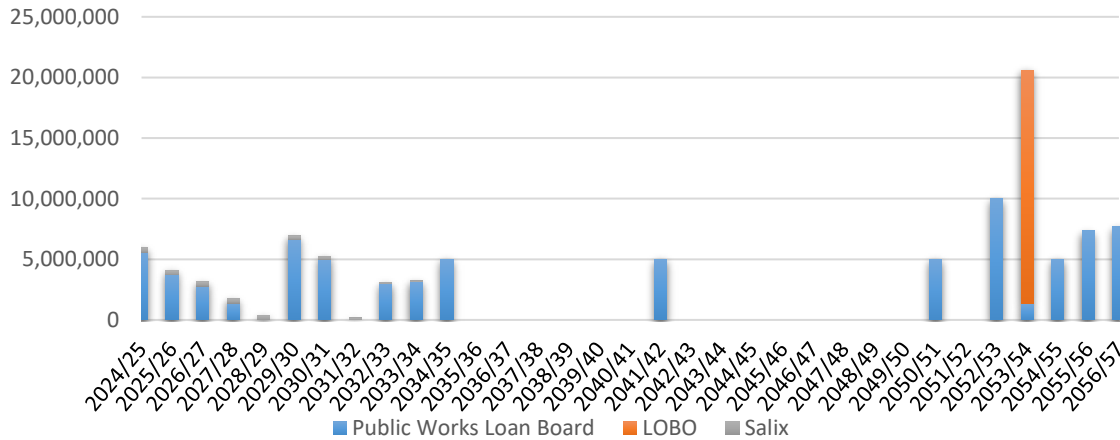
The maturity structure of borrowing indicator is set to control the Council's exposure to refinancing risk with respect to the maturity of the Council's external borrowing. The limits are set to avoid having large amounts of debt maturing in a short space of time. and is the amount of projected borrowing maturing in each period as a percentage of total projected borrowing. Where the maturity date of borrowing is unknown, as in the case of LOBO loans, the maturity should normally be determined by reference to the earliest date at which the lender can require repayment. The £19.25 million of LOBO loans has therefore been included in the 'Under 12 months' category.

Table 4: Maturity Structure of Borrowing 2023-24

Maturity structure of borrowing	Upper limit	lower limit	£ million	As at 31 Dec 2023
Under 12 months	50%	0%	19.64	19.71%
12 months and within 24 months	25%	0%	8.74	8.77%
24 months and within 5 years	25%	0%	6.20	6.22%
5 years and within 10 years	40%	0%	15.54	15.60%
10 years and within 20 years	50%	0%	13.14	13.19%
20 years and above	60%	25%	36.39	36.52%

As can be seen from the table the maturity structure remains within the limits approved as part of the Treasury Management Strategy 2023-24. The following chart provides the maturity profile of the Council's long term debt.

Maturity Profile of long term debt



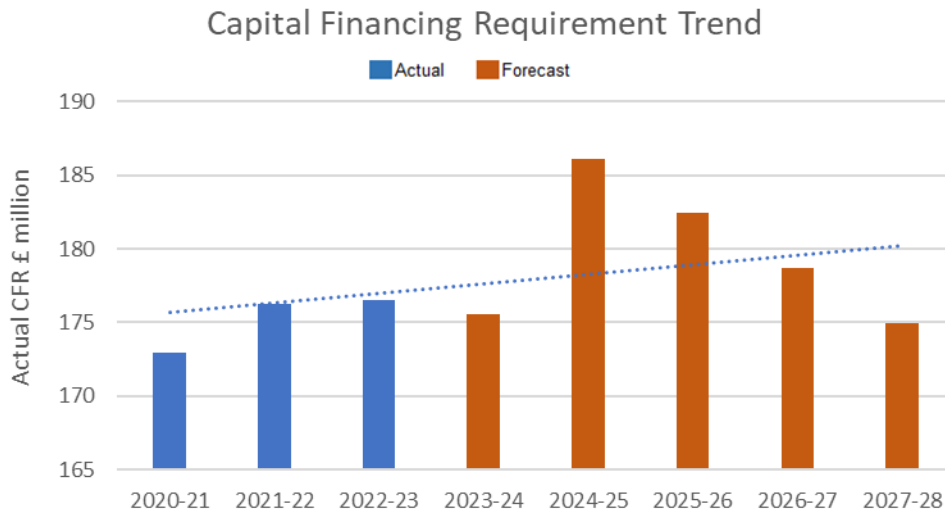
None of the LOBO loans have had to be repaid during the period to 31 December 2023. All the LOBO loans are subject to the lender having the right to change the rate of interest payable during the financial year at either of two trigger points in January and July, with the Council having the right to refuse the change, triggering early repayment and the need to re-finance. This is a manageable risk should repayment be needed during the current financial year as the Council has sufficient funds available in the short term.

Table 5: LOBO loans

Commencement date	Loan value £m	Potential repayment date	Option frequency	Full term maturity
22 January 2004	4.00	22 Jan 2024	6 months	22 January 2054
22 January 2004	5.00	22 Jan 2024	6 months	22 January 2054
22 January 2004	10.25	22 Jan 2024	6 months	22 January 2054

In accordance with the Treasury Management Strategy, the Council is internally borrowing, which is when it uses temporary cash balances it holds in the short term instead of undertaking external borrowing. The current level of internal borrowing is £62.96 million as at 31 Dec 2023. This is shown by the Council’s Capital Financing Requirement (CFR) net of its external level of debt including other long term debt liabilities. The Council’s forecast CFR as at 31 March 2024 is £184.80 million, external borrowing is £99.65 million and other long term debt liabilities forecast to be £12.97 million, which is the PFI Maesteg School scheme.

The chart below shows the trend in the CFR based on **current** capital commitments within the approved capital programme. The CFR is anticipated to increase in the current year assuming capital expenditure is incurred as currently anticipated. The CFR in future years shows a reduction, however, this is on the assumption of no new schemes which require debt financing. If new schemes requiring debt financing are added, the CFR will continue to increase.



5.0 TREASURY INVESTMENTS

The Council holds treasury investments as a result of temporary cash balances arising from its day-to-day activities. The management of the day-to-day cash requirements of the Council is undertaken in-house with advice from Arlingclose, the Council’s Treasury Management advisors. This may involve temporary borrowing to meet cash-flow needs or temporary lending of surplus funds. Investment balances can fluctuate daily and arise as a result of a range of circumstances, including timing differences of revenue and capital cash flows, reserves and other balances held for future use.

Investments are made in institutions approved by Council as part of its Treasury Management Strategy and in accordance with investment guidelines issued by the Welsh Government. As part of the Markets and Financial Instruments Directive II, the Council elected for ‘professional’ status, which covers national and regional governments and public bodies. The categories of investments the Council can invest in can be changed, any proposed changes being presented to Council for approval.

Treasury investments are made primarily on the basis of ensuring security of the funds invested, whilst managing liquidity, and only then considering a commensurate return on the investment. As at 31 December 2023 the Council held £64.50 million of investments, with an weighted average return of 4.35% (£85.50 million at 4.16% as at 30 September 2023). Table 6 below shows the investment profile as at 31 December 2023.

Table 6: Investments by counterparty type

Investment Category	Balance 1 April 2023	Investments made in period	Investments repaid in period	Balance 31 Dec 2023	Weighted interest rate 1 April 2023 to 31 Dec 2023
	£m	£m	£m	£m	%
Government DMO	7.50	343.90	(351.40)	0.00	5.04
Local Authorities	53.00	34.00	(34.00)	53.00	4.04
Money Market Funds	-	55.60	(52.60)	3.00	4.92
Banks (fixed maturity dates)	3.00	27.00	(27.0)	3.00	4.89
Banks (instant access/notice accounts)	11.00	55.05	(60.55)	5.50	3.78
TOTAL	74.50	515.55	(525.55)	64.50	4.35

The following should be noted:

- During the period to 31 December 2023 all investments made were in line with the approved counterparties within the Treasury Management Strategy.
- Investments are diversified over a number of organisations across different sectors, demonstrating a diversified investment portfolio.
- All investments are in sterling and are rated A- and above as per the approved criteria or with a public body.
- The weighted average rates are for all investments made during 1 April 2023 to 31 December 2023.

The overall interest receivable from treasury investments for the period 1 April 2023 to 31 December 2023 was £3.12 million. Although interest rates are expected to have reached their peak, the returns on new investments may vary as there will be a time lag on the overall average rates for existing investments until historic investments mature and monies are reinvested. The Council will continue to take a cautious approach to investing to ensure as its primary concern the security of any investments made. The risk of default for investments held is considered negligible.

All investments longer than 364 days will be made with a cautious approach to cash flow requirements and advice from the Council's Treasury Management advisors will be sought as necessary. The Treasury Management Strategy 2023-24 reduced the maximum duration for new investments to local authorities from 25 years (as grouped with other government agencies) to 2 years. All investments as at 31 December 2023 were short term of less than one year duration.

Table 7: Sums invested for periods longer than a year

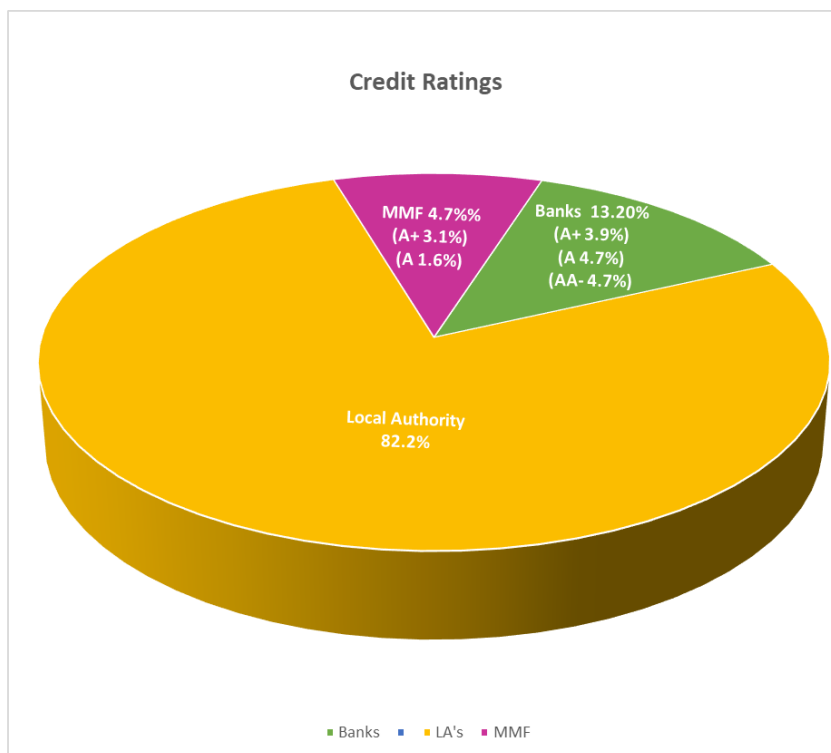
Price risk indicator	TMS 2023-24 £m	Actual £m	Full term maturity
Limit on principal invested beyond financial year end	15	NIL	NIL

The below table details the Council’s investments by counterparty and maturity profile.

Table 8: Investments by maturity

Counterparty Category	Instant Access £m	Deposits maturing within 1 month £m	Deposits maturing within 2-3 months £m	Deposits maturing within 4-12 months £m	Deposits maturing after 12 months £m	TOTAL £m
Government DMO	-	-	-	-	-	-
Local Authorities	-	4.00	15.00	34.00	-	53.00
Money Market Funds	3.00	-	-	-	-	3.00
Banks	2.50	3.00	3.00	-	-	8.50
Total	5.50	7.00	18.00	34.00	-	64.50

The pie chart below summarises the distribution of the Council’s investments by credit ratings. Most local authorities do not have credit ratings but are considered secure investment counterparties. Although the council did not have deposits with the Government DMO at 31 December 23 it did use them during the period. These are the UK government and rated AA.



6.0 INTEREST RATE EXPOSURES

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. Short term and variable rate loans expose the Council to the risk of short-term interest rate rises and are therefore subject to the Treasury Management indicator below.

The following Table is based on investments at 31 December 2023.

Table 9: Interest Rate Exposure

Interest rate risk indicator	£ million
One year revenue impact of a 1% rise in interest rates	(0.449)
One year revenue impact of a 1% fall in interest rates	0.642

It is important to note that this is an indicator, not a limit. It is calculated at a point in time on the assumption that maturing loans and investments would be replaced at rates 1% higher or lower than they are currently, and that the treasury investment and borrowing portfolios remain unchanged over the next 12 months, which in practice is not the case. The figure for the 1% fall in interest rates indicator is not the same figure as the 1% increase (but reversed) as the borrowing relates to variable LOBO loans where it is assumed that the lender would only exercise their option if there was an increase in interest rates. All other borrowing does not have a rate reset in the next year and is with the PWLB at fixed rates.

A comparison of interest expenditure and income due for the period 1 April 2023 to 31 December 2023 is shown below.

Table 10: Interest

	01 April 2023 – 31 December 2023 £ million
Interest expenditure payable on long term borrowing	3.406
Interest income received in period	(3.123)
Net interest cost	0.283

7.0 NON-TREASURY INVESTMENTS

The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activities include investments in subsidiaries and investments in property. A schedule of the Council's existing non-treasury investments (currently limited to owned property) is set out in Table 11 below. Recent PWLB

guidance requires that local authorities should review their investment portfolio if they wish to secure PWLB borrowing but does not require the local authority to sell existing investment assets. This category covers non-financial assets held primarily or partially to generate a profit, primarily investment property. These assets are valued on an annual basis to reflect market conditions and the current value at the time they are valued, otherwise known as Fair Value, which provides security of their value and continued benefit to the Council.

Table 11: Non-treasury investments

Non-treasury investments	£ million
Bridgend Science Park - Units 1 & 2	3.985
Waterton Cross Land	0.600
Brynmenyn Industrial Estate Plot 53	0.675
Village Farm Plots 32,119 & 120	0.385
Tyrewise Bridgend	0.200
Total at Fair Value	5.845
Anticipated annual return 2023-24	0.460

The Council considers that the scale of its investment properties is proportionate to the resources of the Council as the investment represents less than 1% of its total long-term assets. In addition, the value of these investments has increased from the previous year.

In accordance with Welsh Government Investment Guidance, these are be classified as non-treasury investments.

Schedule A – Credit Rating Equivalence Table

Credit Rating Equivalence Table

	Description	Fitch		Moody's		Standard & Poor's				
		Long	Short	Long	Short	Long	Short			
INVESTMENT GRADE	Extremely strong	AAA		Aaa		AAA				
	Very strong	AA+	F1+	Aa1	P-1	AA+	A-1+			
		AA		Aa2		AA				
		AA-		Aa3		AA-				
	Strong	A+	F1	A1	P-2	A+	A-1			
		A		A2		A				
		A-		A3		A-				
	Adequate	BBB+	F2	Baa1	P-3	BBB+	A-2			
		BBB		Baa2		BBB				
BBB-		Baa3		BBB-						
SPECULATIVE GRADE	Speculative	BB+	B	Ba1	Not Prime (NP)	BB+	B			
		BB		Ba2		BB				
		BB-		Ba3		BB-				
	Very speculative	B+		B1		B+				
		B		B2		B				
		B-		B3		B-				
	Vulnerable	CCC+		C		Caa1		Not Prime (NP)	CCC+	C
		CCC				Caa2			CCC	
		CCC-				Caa3			CCC-	
CC		Ca	CC							
	C				C					
Defaulting	D	D	C		D	D				

Schedule B – Arlingclose Economic & Interest Rate Forecast – December 2023

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.77	3.75	3.75	3.75	3.70	3.60	3.50	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.72	3.75	3.80	3.80	3.80	3.80	3.80	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.16	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.76	3.80	3.85	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.95	3.95	3.95
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%; PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40%; UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

- UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.
- The MPC's message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank's last forecasts.
- Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the more timely PMI figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.
- Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We

believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.

- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.
- Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium-term level for Bank Rate.
- There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.