Appendix A

Treasury Management
Quarterly Report to 30 June 2024

Cyngor Bwrdeistref Sirol Pen-y-bont ar Ogwr
BRIDGEND
County Borough Council

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 headline consumer price inflation (CPI) continued to decline over the quarter, falling from an annual rate of 3.2% in March to 2.0% in May, in line with the Bank of England's (BoE) target. The core measure of inflation, however, only declined from 4.2% to 3.5% over the same period, which, together with stubborn services price inflation at 5.7% in May, helped contribute to the BoE maintaining Bank Rate at 5.25% during the period, a level unchanged since August 2023.

Data released during the period showed that the UK economy had emerged from the technical recession at the end of 2023 to expand by 0.7% (upwardly revised from the initial estimate of 0.6%) in the first quarter of the calendar year. Monthly Gross Domestic Product (GDP) data showed zero growth in April following an expansion of 0.4% in the previous month.

Labour market data continued to provide mixed messages for policymakers, exacerbated by issues the Office for National Statistics is having compiling the labour force survey. In the three months between February and April 2024, unemployment was up, employment fell, while the decline in vacancies slowed and wage growth remained elevated. Unemployment rose to 4.4% (3mth/year) while average regular earnings (excluding bonuses) was 6.0% and total earnings (including bonuses) was 5.9%. Adjusting for inflation, real regular pay rose by 2.3% and total pay by 2.2%. Given how keenly the 'second-round' impact of inflation on wages is watched by the Bank of England, policymakers will likely want to see more downward movement before cutting interest rates.

Having started the financial year at 5.25%, the Bank of England's Monetary Policy Committee (MPC) maintained Bank Rate at this level throughout the quarter. In line with expectations, at its June meeting, the Committee voted by a majority of 7-2 in favour of maintaining the status quo. The two dissenters preferred an immediate 0.25% reduction in Bank Rate to 5.0%. This continued dovish tilt towards reducing rates meant the Committee increased financial market expectations that the first cut in Bank Rate will likely be in August.

Earlier in May, in addition to an identical MPC rate decision and voting pattern, the Bank Of England (BoE) published the latest version of its Monetary Policy Report (MPR). Within the Report the Committee noted that it expected four-quarter GDP growth to increase over the forecast period, reflecting the declining negative effects of past Bank Rate increases and the predicted downward path of interest rates which should provide support to economic activity. The trajectory of inflation was broadly similar to that in the previous MPR, albeit slightly lower towards the end of the forecast horizon due to the Committee's revised assessment of falling external inflationary pressures from past import price increases. This meant the Committee expected headline inflation to hit the 2% target two quarters sooner than in the February MPR. As was highlighted earlier, inflation data published in June showed that CPI inflation fell to the 2% target in May.

Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% is the peak in Bank Rate and that interest rates will most likely be cut later in second half of 2024. The risks over the medium term are deemed to be to the upside as, while inflation has fallen to target, it is expected to pick up again later in the year and as services price inflation and wage growth are still on the firmer side, the MPC could well delay before delivering the first rate cut.

Sentiment in financial markets showed signs of improvement over the quarter, but bond yields remained volatile. Early in the period yields climbed steadily, but mixed signals from economic data and investors' constant reassessment of when rate cuts might come caused a couple of fairly pronounced but short-lived dips in yields. Towards the end of the quarter yields rose once again and were generally higher than at the start of the period.

Arlingclose maintained its advised recommended maximum unsecured duration limit on all banks on its counterparty list at 100 days.

3.0 EXTERNAL DEBT AND INVESTMENT POSITION

The Council's external debt and investments at 30 June 2024 is set out in Table 1 below. The Council held £99.58 million of Long Term Borrowing comprising:

- Public Works Loan Board (PWLB - UK 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)
- £2.71 million of Salix interest-free loans

The Council borrowed £5 million for short term cash flow purposes in March 2024, which was repaid in May 2024.

At 30 June 2024 the Council had £50.35 million of investments for treasury management purposes and £4.99 million of investments for commercial purposes.

Table 1: Council's external debt and investment position as of 30 June 2024

Investments for Treasury Purposes	Principal as at 31/03/2024 £m	Principal as at 30/06/2024 £m	Average Rate 30/06/2024 %
External Long Term Borrowing			
Public Works Loan Board (PWLB)	77.62	77.62	4.70
Lenders Option Borrowers Option (LOBO)	19.25	19.25	4.65
Salix Loans (Interest Free)	2.74	2.71	NIL
Short Term Borrowing	5.00	NIL	NIL
Total External Borrowing	**104.61**	**99.58**	**4.69***
Other Long Term Liabilities			
Private Finance Initiative**	12.97	12.72	
Other Long Term Liabilities	NIL	NIL	
Total Other Long Term Liabilities	**12.97**	**12.72**	
Total Gross Debt	**117.58**	**112.30**	
Investments for treasury management purposes			
Debt Management Office	NIL	NIL	NIL
Local Authorities	44.00	35.00	5.23
Money Market Funds (instant access)	NIL	12.00	5.24
Banks	6.00	3.35	4.61
Total Treasury Investments	**50.00**	**50.35**	**5.19**
Net Debt	**67.58**	**61.95**	

Investments for Commercial Purposes	Fair Value as at 31/03/2024 £m	Anticipated return 31/3/2025 £m
Investments	4.990	0.459

** Excluding Salix loans which are interest free and Short Term borrowing*
*** (PFI) arrangement for the provision of a Secondary School in Maesteg 9.75 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, having a final maturity date in 2054 the £19.25 million of Lender's Option Borrower's Option loans can be called bi-annually., It is unlikely they will need be rescheduled at the 22 July 2024 maturity date which would be the next available date for consideration.

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 for 2024-25 is £7.321 million, which includes supported and unsupported borrowing and the PFI for Maesteg School.

Liability benchmark

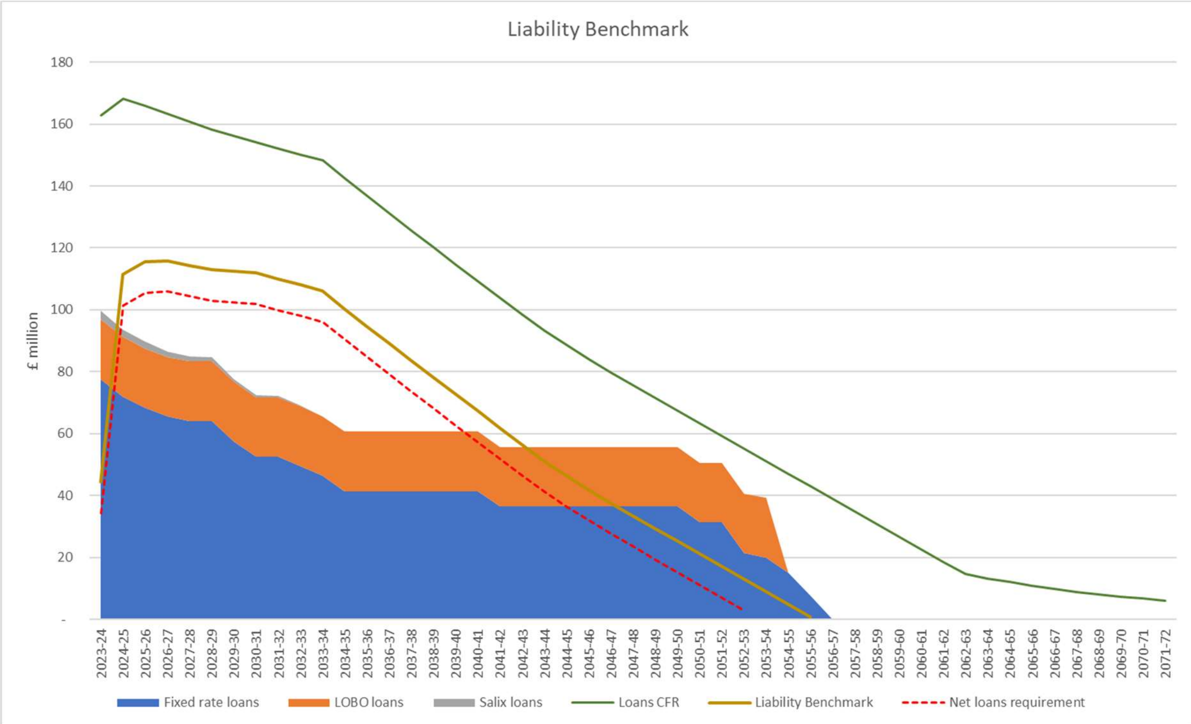
The liability benchmark is a tool which helps to assess the lowest level of borrowing the Council needs, taking into account available cash resources to fund capital expenditure in the short term. A minimum level of investments is factored into the calculation, set at £10 million, which are held as reasonably 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 2024 actual £m	31 March 2025 estimate (TMS) £m	31 March 2025 forecast £m	31 March 2026 forecast £m	31 March 2027 forecast £m
Capital Financing Requirement	175.72	183.22	183.26	179.66	175.91
Less: Other debt liabilities	(12.97)	(15.12)	(15.12)	(13.90)	(12.58)
Loans Capital Financing Requirement	***162.75***	***168.10***	***168.14***	***165.76***	***163.33***
Less: Balance Sheet Resources	(128.35)	(58.52)	(66.81)	(60.25)	(57.44)
Plus: Liquidity allowance	10.00	10.00	10.00	10.00	10.00
Liability Benchmark	**44.40**	**119.58**	**111.33**	**115.51**	**115.89**

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.



It is forecast that the Council may need to borrow 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, the Governance and Audit Committee and Council as appropriate. This could be as a result of changes in the level of useable 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 30 June 2024 the Council held £99.58 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

	2024-25 £ million	2025-26 £ million	2026-27 £ million
Value of maturing debt	5.580	3.709	2.790

The £5.58 million for 2024-25 is due for repayment on 31 March 2025. As noted above the Council may need to borrow during 2024-25 which may, in part, replace this maturing PWLB loan.

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. It reflects 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. This table also reflects the PWLB repayable in 2024-25.

Table 4: Maturity Structure of Borrowing 2024-25

Maturity structure of borrowing	Upper limit	lower limit	£ million	As at 30 June 2024
Under 12 months	50%	0%	25.23	25.33%
12 months and within 24 months	25%	0%	4.10	4.12%
24 months and within 5 years	25%	0%	5.36	5.38%
5 years and within 10 years	40%	0%	18.51	18.59%
10 years and within 20 years	50%	0%	10.00	10.04%
20 years and above	60%	25%	36.38	36.54%

As can be seen from the table the maturity structure remains within the limits approved as part of the Treasury Management Strategy 2024-25. The following chart provides the maturity profile of the Council's long term debt.

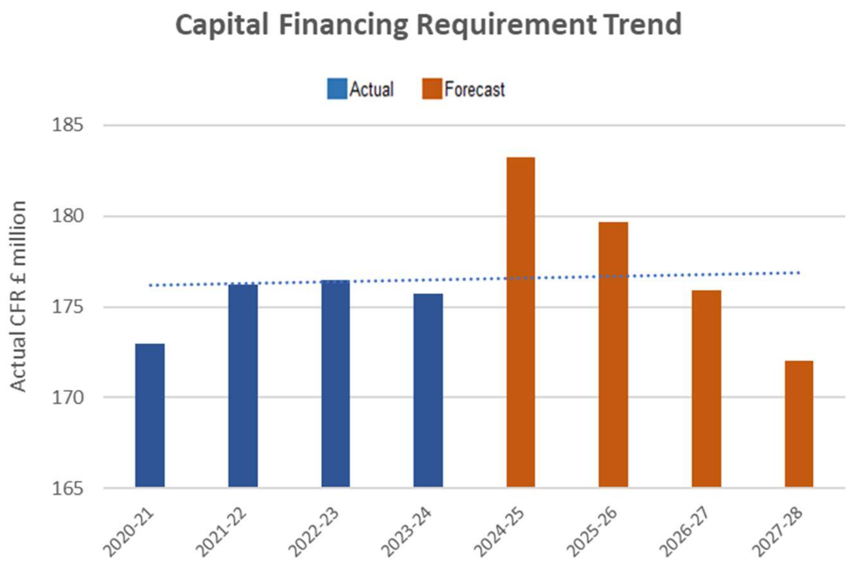
All the LOBO loans are subject to the lender having the right to change the rate of interest payable during the financial year at either of two trigger points in January and July, with the Council having the right to refuse the change, triggering early repayment and the need to re-finance. This is a manageable risk should repayment be needed during the current financial year as the Council has sufficient funds available in the short term, but would, however, need to consider taking out new debt to replace these loans during the financial year. It is considered unlikely that these loans will be called at the July call date.

Table 5: LOBO loans

Commencement date	Loan value £m	Potential repayment date	Option frequency	Full term maturity
22 January 2004	4.00	22 July 2024	6 months	22 January 2054
22 January 2004	5.00	22 July 2024	6 months	22 January 2054
22 January 2004	10.25	22 July 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 30 June 2024. 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 current forecast CFR as at 31 March 2025 is £183.26 million, external borrowing is £93.71 million and other long term debt liabilities forecast to be £15.12 million, which is primarily the PFI Maesteg School scheme plus the lease commitments of right of use assets, which have to brought onto the balance sheet from 1 April 2024 under International Financial Reporting Standard 16 (IFRS16).

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 that there will be 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 the 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 with 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 30 June 2024 the Council held £50.35 million of investments, with a weighted average return of 5.19% (£50 million at 5.02% as at 31 March 2024).

Table 6 below shows the investment profile as at 30 June 2024.

Table 6: Investments by counterparty type

Investment Category	Balance 1 April 2024 £m	Investments made in period £m	Investments repaid in period £m	Balance 30 June 2024 £m	Weighted interest rate 1 April 2024 to 30 June 2024 %
Government DMO	0.00	87.50	(87.50)	0.00	5.19
Local Authorities	44.00		(9.00)	35.00	5.21
Money Market Funds	NIL	50.60	(38.60)	12.00	5.23
Banks (fixed maturity dates)	NIL	NIL	NIL	NIL	NIL
Banks (instant access/notice accounts)	6.00	12.50	(15.15)	3.35	4.08
TOTAL	**50.00**	**150.60**	**(150.25)**	**50.35**	**5.13**

The following should be noted:

- During the period to 30 June 2024 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 2024 to 30 June 2024.

The overall interest receivable from treasury investments for the period 1 April 2024 to 30 June 2024 was £0.882 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. All investments as at 30 June 2024 were short term of less than one year duration.

Table 7: Sums invested for periods longer than a year

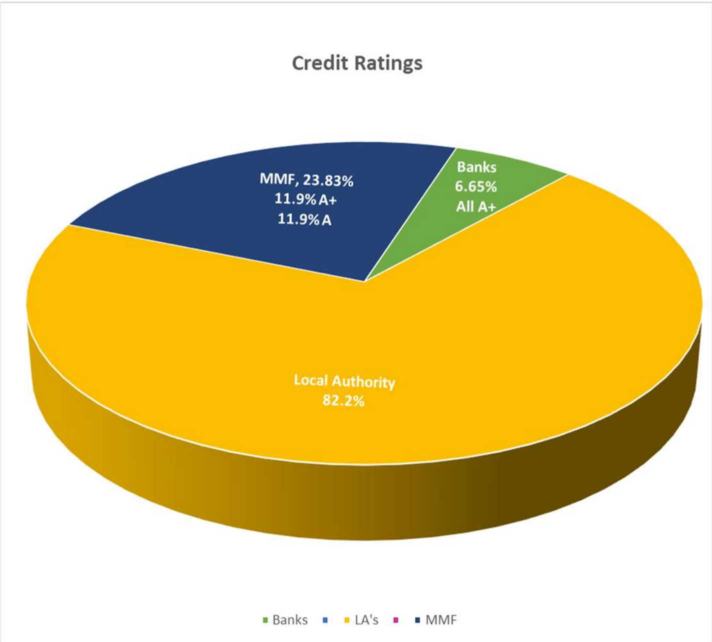
Price risk indicator	TMS 2024-25 £m	Actual £m	Full term maturity
Limit on principal invested beyond financial year end	15	NIL	NIL

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	TOTAL £m
Government DMO	-	-	-	-	-
Local Authorities	-	15.00	-	20.00	35.00
Money Market Funds	12.00	-	-	-	12.00
Banks	3.35	-	-	-	3.35
Total	**15.35**	**15.00**	**-**	**20.00**	**50.35**

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 30 June 24 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 30 June 2024.

Table 9: Interest Rate Exposure

Interest rate risk indicator	£ million
One year revenue impact of a 1% rise in interest rates	(0.201)
One year revenue impact of a 1% fall in interest rates	0.394

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 2024 to 30 June 2024 is shown below.

Table 10: Interest

	01 April 2024 – 30 June 2024 £ million
Interest expenditure payable on long term borrowing	0.039
Interest income received in period	(0.882)
Net interest cost	(0.843)

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	3.170
Waterton Cross Land	0.560
Brynmenyn Industrial Estate Plot 53	0.675
Village Farm Plots 32,119 & 120	0.385
Tyrewise Bridgend	0.200
Total at Fair Value	**4.990**
Anticipated annual return 2023-24	**0.459**

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

Grade	Description	Fitch Long	Fitch Short	Moody's Long	Moody's Short	Standard & Poor's Long	Standard & Poor's Short
INVESTMENT GRADE	Extremely strong	AAA	F1+	Aaa	P-1	AAA	A-1+
	Very strong	AA+		Aa1		AA+	
		AA		Aa2		AA	
		AA-		Aa3		AA-	
	Strong	A+		A1		A+	A-1
		A	F1	A2		A	
		A-		A3		A-	A-2
	Adequate	BBB+	F2	Baa1	P-2	BBB+	
		BBB		Baa2		BBB	
		BBB-	F3	Baa3	P-3	BBB-	A-3
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		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 – June 2024

	Current	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	5.25	5.00	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	5.40	5.15	4.80	4.30	3.80	3.30	3.05	3.10	3.10	3.15	3.15	3.15	3.15
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.75	1.00	1.10	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.95	3.90	3.70	3.50	3.45	3.40	3.40	3.40	3.40	3.45	3.50	3.55	3.55
Downside risk	0.00	-0.75	-0.90	-0.90	-0.95	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.80	0.90	0.95	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.09	4.05	4.00	3.80	3.75	3.70	3.70	3.70	3.70	3.75	3.80	3.80	3.80
Downside risk	0.00	-0.75	-0.90	-0.90	-0.90	-0.95	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.55	4.45	4.40	4.20	4.20	4.20	4.20	4.20	4.20	4.25	4.30	4.35	4.35
Downside risk	0.00	-0.75	-0.85	-0.90	-0.95	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.16	4.05	4.00	3.80	3.80	3.80	3.80	3.80	3.80	3.85	3.90	3.95	3.95
Downside risk	0.00	-0.75	-0.85	-0.90	-0.95	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

• The Bank of England appears to be on the verge of loosening monetary policy, after a group on the MPC saw the last no change decision as finely balanced. However, the news about wage growth, core and services inflation has been on the stronger side, so a plethora of rates cuts in 2024 remains unlikely, as Bank Rate remains restrictive to bear down on inflationary pressure.

• In June, the MPC continued its dovish tilt. Two members voted for a rate cut, but it appeared that some of the remaining seven were close to joining them.

• UK GDP growth stagnated in a rain-affected April, but other data suggests that, while not strong, growth rebounded in May. However, activity appears to be ebbing somewhat after the more robust activity growth in Q1.

• While wage growth remained strong, buoyed by significant increases in minimum wage, labour market data for April suggested that the market was loosening, with employment and vacancies down, and unemployment up. Anecdotal evidence has suggested lower pay growth for some time, and we expect the weaker labour market situation to hasten that outcome.

• On the other hand, consumer sentiment has improved and is feeding into spending – May's retail sales data indicated robust underlying demand despite the weather-related volatility. Stronger demand in Q1 therefore raises some upside risks to our view.

• Inflation rates will move lower over the next 12 months. The near-term path is less certain due to recent developments in commodity and energy markets, but we expect higher interest rates to dampen activity and this in turn to dampen inflation through the supply chain. There are upside risks from geo-political issues and stronger domestic activity. With continued policymaker fear around the persistence of underlying inflationary pressure, particularly services inflation, we believe Bank Rate will initially reduce slowly.

• We expect that the continuation of restrictive monetary policy will bear down on activity and will require substantial loosening in 2025 to boost activity and inflation.

• Global bond yields will remain volatile and investors' positioning for the timing of US monetary loosening will continue to influence movements in gilt yields. Moreover, there is a heightened risk of fiscal policy, credit events and/or geo-political events causing substantial volatility in yields.

• The MPC held Bank Rate at 5.25% in June.

• The MPC will cut rates to stimulate the UK economy but will be reluctant to do so significantly until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by late 2025.

• The balance of risks around Bank Rate lie to the upside; the Bank could hold rates until September or even Q4, and the developing upside risks to inflation could limit the extent of monetary easing.

• Long-term gilt yields have dipped a little following softer US data. Arlingclose's central case is for yields to be volatile around a relatively narrow range, reflecting the likelihood for monetary loosening in the Eurozone, UK and US.