Treasury Management Economic Background

Financial Review and Outlook for 2018/19

The UK economy still faces a challenging outlook as the government continues to negotiate the country's exit from the European Union.

In August the MPC voted 9-0 to increase the Bank Rate by 0.25% to 0.75% and maintain the asset purchase programme at £435bn and the corporate bond purchase programme at £10bn. The Bank of England cited very limited slack in the UK economy and a tightening in the labour market as reason for increase. The Bank sees CPI at 2% by Q4 2020 and holding steady there throughout 2021.

Our treasury advisor Arlingclose, latest interest forecast is for a further increase in March 2019 to 1% and again in September to 1.25% with it remaining so until 2021. The interest forecast are set against the following background:

- The MPC has maintained expectations of a slow rise in interest rates in the medium term.

- Gilt yields have been volatile, but remain historically low. We expect some upward movement from current levels based on our interest rate projections and the strength of the US economy, but volatility arising from both economic and political events will continue to offer borrowing opportunities.

Credit background:

There were a few credit rating changes during the quarter, none of which have impacted on our investment strategy.

The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) is complete and the transfer of their business lines into retail (ringfenced) and investment banking (non-ringfenced) is progressing and will need to be completed by the end of 2018. Following this our treasury advisor will provide ratings which are specific to wholesale deposits including certificates of deposit, rather than provide general issuer credit ratings. Non-preferred senior unsecured debt and senior bonds are at higher risk of bail-in than deposit products, either through contractual terms, national law, or resolution authorities' flexibility during bail-in, their creditworthiness advice will continue to include unsecured bank deposits and CDs but not senior unsecured bonds issued by commercial banks.