Arlingclose Ltd:
Independent treasury management services

Economic and Interest Rate Forecast

11th November 2024

The Clement Rooms
217 Strand, London WC2R 1AT
Tel +44(0)8448 808 200
Fax +44(0)8448 808 205
www.arlingclose.com

Economic and Interest Rate Forecast 11th November 2024

- **As expected, the Monetary Policy Committee (MPC) cut Bank Rate to 4.75% in November in an 8-1 vote. However, the outlook for monetary policy has changed following the new government's fiscal plans, as delivered in the recent Budget.**
- The Budget measures will boost demand in a constrained supply environment, while pushing up direct costs for employers. The short to medium-term inflationary effects of the Budget require a change to our Interest Rate Forecast.
- UK GDP recovered well in H1 2024 from technical recession, but underlying growth appears relatively subdued. The Budget will significantly boost government spending over the short-term, with few offsetting measures to subdue household demand, so GDP growth is likely to rise relatively steeply.
- Private sector wage growth and services inflation remain elevated. The increase in employers' NICs, minimum and public sector wage levels could have wide ranging impacts on private sector employment demand and costs, but the near-term impact will likely be inflationary as these additional costs get passed to consumers.
- CPI inflation rates will rise a little by year-end due to higher energy prices and less favourable base effects. The Bank of England (BoE) estimates the Budget impact will see the CPI rate at 2.7% by year end 2025 and remain over target in 2026, as opposed to the prior projection of inflation easing back to and then below target.
- The MPC re-emphasised that monetary policy will be eased gradually, and we now believe the Budget measures have both reduced the pace of Bank Rate cuts and raised the low point for this loosening cycle (although downside risks develop later).
- The Office for Budget Responsibility's (OBR) projections for increased borrowing, higher inflation and a shallower path for Bank Rate raised gilt yields. The material change in expectations means that yields will be generally higher in the post-Budget world.
- US government bond yields have risen following Donald Trump's and Republican victories in the US elections. Trump ran on a platform of policies that appear inflationary, calling into question the extent of policy loosening required from the Federal Reserve (which was already uncertain given continued solid US growth data). Higher US yields could also support higher UK yields.

	Current	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.75	4.75	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
3-month money market rate													
Upside risk	0.00	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.95	4.80	4.60	4.35	4.10	3.90	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
5yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.30	4.20	4.10	4.05	3.95	3.90	3.90	3.90	3.95	4.00	4.05	4.05	4.05
Downside risk	0.00	-0.40	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80
10yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.41	4.40	4.30	4.30	4.25	4.20	4.20	4.20	4.20	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.40	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80
20yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.84	4.80	4.75	4.70	4.65	4.65	4.65	4.65	4.65	4.65	4.65	4.65	4.65
Downside risk	0.00	-0.40	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80
50yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.35	4.50	4.45	4.40	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Downside risk	0.00	-0.40	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80

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%; National Wealth Fund Rate (Maturity Loans) = Gilt yield + 0.40%

- **In line with our forecast, Bank Rate was cut to 4.75% in November.**
- **The MPC will continue to reduce Bank Rate, but more slowly and by less. We see another rate cut in February 2025, followed by a cut alongside every Monetary Policy Report publication, to a low of 3.75%.**
- **Long-term gilt yields have risen to reflect both UK and US economic, monetary and fiscal policy expectations, and increases in bond supply. Volatility will remain elevated as the market digests incoming data for clues around the impact of policy changes.**
- **This uncertainty may also necessitate more frequent changes to our forecast than has been the case recently.**
- **The risks around the forecasts lie to the upside over the next 12 months, but are broadly balanced in the medium term.**

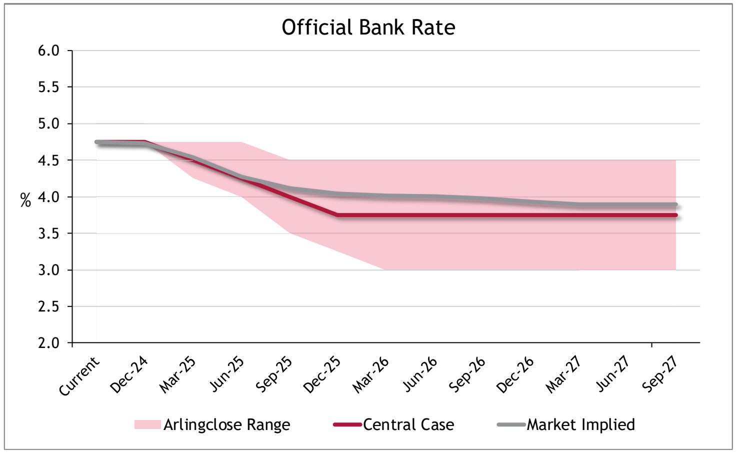
Arlingclose and Market Projections
11th November 2024

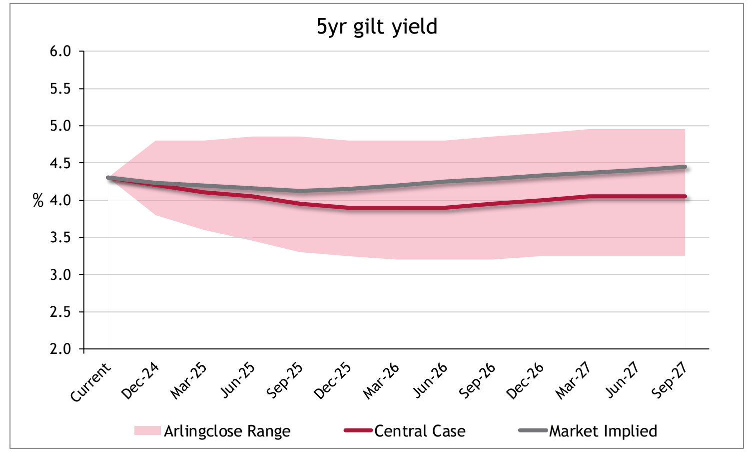
Charts show the Arlingclose central case along with upside and downside risks:
Arlingclose judges that the risks around its Bank Rate and gilt yield forecasts are to the upside in the short term, but broadly balanced over the medium term.

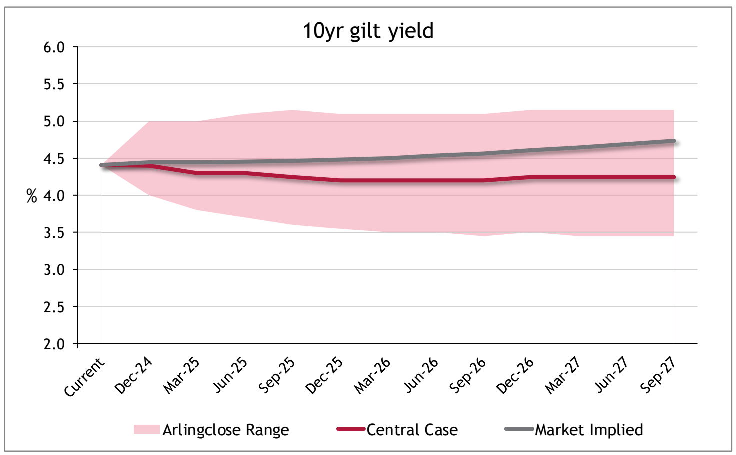
PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40%
NWF Rate (Maturity Loans) = Gilt yield + 0.40%

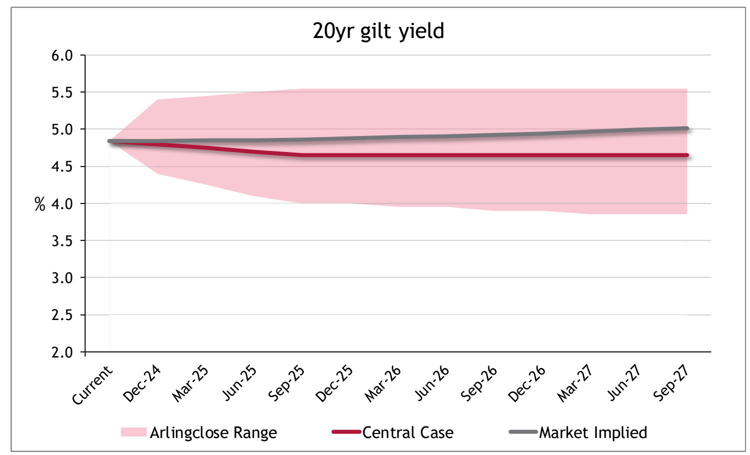
Arlingclose forecast:
11th November 2024

Market forward curves:
11th November 2024









BoE Monetary Policy Report - November 2024

Outlook for UK GDP growth

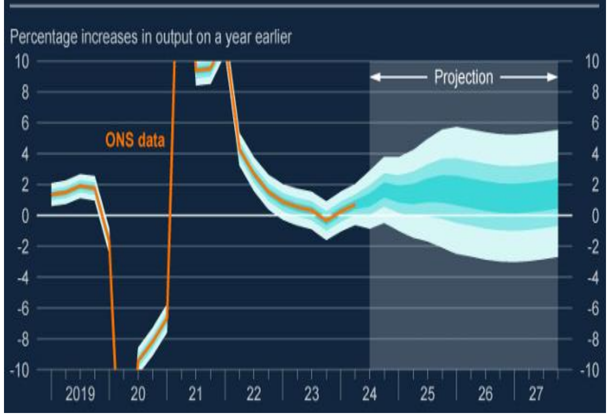


Chart 1.2: GDP growth projection based on market interest rate expectations, other policy measures as announced

Outlook for UK Unemployment

Chart 1.3: Unemployment rate projection based on market interest rate expectations, other policy measures as announced

Outlook for UK CPI inflation

Chart 1.4: CPI inflation projection based on market interest rate expectations, other policy measures as announced

- While UK GDP growth picked up sharply in 2024, underlying economic momentum appears subdued. Growth is expected to ease slightly in 2025 before gradually recovering, reflecting both the delayed impact of prior Bank Rate increases and the fading of restrictive monetary policy effects over time. Aggregate demand and supply currently remain balanced; however, a margin of economic slack is projected to emerge through 2024 and 2025, partly due to the sustained restrictive policy stance.

- Labour market data from the ONS remains variable, though broader indicators suggest the market is beginning to loosen as labour demand cools. Unemployment is expected to edge up, a sign of moderating labour tightness.

- Notably, inflation remains a key concern; CPI is projected to rise to approximately 2.75% by the end of 2024, as the previous year's energy price reductions fall out of annual comparisons, revealing the underlying persistence of domestic inflationary pressures. Inflation is then expected to fall to the Bank of England's target by the end of 2027.