

Interest Rate Forecasts & Economic Background

The Council has appointed Arlingclose Limited as treasury adviser to the Council. Part of their service is to assist the Council in formulating a view on interest rates. The following tables shows Arlingclose's view. The forecast within the strategy statement has been informed by these sources and the Treasury Management Strategy Team's own view.

Arlingclose interest rate forecast – 22 December 2009

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
Official Bank Rate									
Upside risk			+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	0.50	0.50	0.50	1.00	1.50	2.25	3.00	4.00	4.00
Downside risk				-0.50	-0.50	-0.50	-0.25	-0.25	-0.25
1-yr LIBID									
Upside risk			+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	1.25	1.25	1.50	2.00	2.75	3.50	4.00	4.25	4.25
Downside risk				-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt									
Upside risk	+0.25	+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	2.70	2.80	2.90	3.00	3.25	3.50	3.75	4.00	4.25
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt									
Upside risk		+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25
Central case	3.75	3.75	4.00	4.00	4.25	4.25	4.50	4.50	4.75
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt									
Upside risk	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25
Central case	4.25	4.50	4.75	4.75	5.00	5.00	5.00	5.00	5.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt									
Upside risk	+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	4.25	4.50	4.50	4.50	4.75	4.75	4.75	4.75	4.75
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

Economic Background

Introduction

The International financial crisis persisted into 2009/10 as economies around the world continued to struggle against falling inflation, recession, and the prospect of depression. Official bank base rates around the world started the financial year at historic lows and have remained there since.

International

The US Federal Reserve has kept the monetary policy on hold with rates at 0.25%. They have indicated that they intend to keep rates at this low level for an "extended period" in response to high levels of unemployment, despite a return to economic growth.

The US economy did continue to grow albeit at a rate of 2.2% against a prediction of 2.8%.

2009 saw the Greece Government being downgraded by all three of the major credit rating agencies in response to the Countries weakening financial stability, and rising national debt.

Late 2009 saw the crash in the property market of Dubai, however their neighbour, Abu Dhabi came to the rescue in mid December by giving Dubai World, and the state owned Nakheel a \$10bn loan.

UK

The Monetary Policy Committee has kept official bank rates at 0.5% since March 2009, and it is expected to do so for the majority of 2010.

The GDP of the UK has continued to contract in the first 3 quarters of 2009; however this has been at a slower rate than predicted. By November 2009 the economy had contracted for 18 consecutive months. By November, the UK was the only G20 country still in recession.

Anecdotal evidence does now suggest that the economy is starting to recover from recession, with indications that the UK could be out of recession some time during the first quarter of 2010.

It is thought that the recession in the UK could have been far deeper and longer, with the possibility of the UK entering a depression, however it seems that the steps that the Government have taken with Quantitative Easing has staved off the worst.

In the May 2009 the Monetary Policy Committee extended the planned Quantitative easing from £75bn to £150bn. This was increase to £175bn and again to the current level of £200bn. The UK Government has now indicated an end to Quantitative Easing.