Corporate Policy and Resources	
Thursday, 10th November 2022	

Subject: Mid-Year Treasury Management Report 2022-23

Report by:	Director of Corporate Services
Contact Officer:	Peter Davy Financial Services Manager peter.davy@west-lindsey.gov.uk
Purpose / Summary:	This report provides the Mid-Year update for Treasury Management Indicators in accordance with the Local Government Act 2003

RECOMMENDATION(S):

The Corporate Policy and Resources Committee is asked to recommend the following to Full Council:

- **Note the report, the treasury activity and recommend approval of any changes to the prudential indicators.**

IMPLICATIONS

Legal:

This report complies with the requirement of the Local Government Act 2003

Financial : FIN/104/23/PD

There are no financial implications as a direct result of this report

Staffing : None arising as a result of this report

(N.B.) Where there are staffing implications the report MUST have a HR Ref

Equality and Diversity including Human Rights :

None arising as a result of this report

Data Protection Implications : None arising as a result of this report

Climate Related Risks and Opportunities: This is a monitoring report only

Section 17 Crime and Disorder Considerations: This is a monitoring report only

Health Implications: This is a monitoring report only

Title and Location of any Background Papers used in the preparation of this report :

CIPFA Code of Treasury Management Practice 2017

CIPFA The Prudential Code

Local Government Act 2003

Located in the Finance Department

Risk Assessment :
The Mid Year Treasury Management Report reviews our assessment of Treasury Risks

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)	**Yes**		**No**	**x**

Key Decision:

A matter which affects two or more wards, or has significant financial implications	**Yes**		**No**	**x**

Executive Summary

1. Executive Summary

This mid-year report has been prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2022/23 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2022/23;
- A review of the Council's borrowing strategy for 2022/23;
- A review of compliance with Treasury and Prudential Limits for 2022/23.

1.1 The Bank of England Base rate has increased during 2022/23, with further rises expected. The current rate is 2.25%.

1.2 There have been no changes to the Treasury Management Strategy Statement and Annual Investment Strategy.

1.3 The forecast out-turn for Capital Expenditure is £10.493m against the approved budget of £16.772m. The budget will be revised to £10.5m at Corporate Policy and Resources committee with a request of £6.815m to be re-phased over future financial years. The remaining £0.543m is the net increase in budgets where funding has been identified.

1.4 The Council is projected to have circa £12m invested at the year end and have generated £0.384m in investment Interest. The return on investments is increasing with the increase in interest rates compared to when rates were historically low on which the original budget was predicated.

1.5 It is anticipated that total external borrowing may need to increase in the short term to cover cashflow fluctuations, this currently stands at £21.5m.

2. Background

2.1 Capital Strategy

In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is to provide the following:

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

2.2 Treasury Management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment returns.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:

"The management of the local authority's borrowing, investments and cash flows, 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."

2.3 Key Changes to the Treasury and Capital Strategies

There are no changes to report to this committee

3. Economics and Interest Rates

3.1 Monetary Policy Committee meetings 04.8.22 and 22.09.22

The committee raised interest rates to 1.75% in August and then to 2.25% in September with further rises expected. The Councils Treasury advisors have summarised the outcomes of these meetings as follows: -

- In August, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 1.75%, and on 22nd September moved rates up a further 50 basis points to 2.25%. The increase reflected a split vote – five members voting for a 50 basis points increase, three for 75 basis points and one for 25 basis points. The MPC continues to work to get inflation back on track over a three-year horizon.

- Moreover, the UK now has a new Prime Minister, a new Chancellor and new economic policies that seek to grow the UK economy faster than at any time since the 1980s. The central parts to the government's new policies are tax cuts and regulatory simplification. It is too early to say whether such policies will boost growth in the ways intended, but what is clear at this juncture is that the lack of scrutiny of the various projections, ideally by the Office of Budget Responsibility (OBR), and an emphasis upon borrowing to fund the significant cost of the proposals has caused market instability.

- Subsequently, the Government has announced that the OBR will scrutinise their spending plans on 23rd November, after the MPC next meets on 3rd November. Naturally, the Bank Rate forecast set out below will be dependent on a more joined-up set of communications from the Bank of England and the government than that which we have seen or heard so far. In addition, the fiscal governance aspects referred to in the OBR's upcoming review in November will need to be suitable to persuade the markets that sound fiscal policy is in place.

- Of course, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has led with increases of 300 basis points in the year to date and is expected to increase rates further before the end of the year. Similarly, the ECB has also started to tighten monetary policy, albeit from an ultra-low starting point, as have all the major central banks apart from Japan. Arguably, though, it is US monetary policies that are having the greatest impact on global bond markets.

- What happens in Ukraine will also impact the global economy, but particularly in Europe. The search for alternative providers of energy, other than Russia, will take both time and effort. The weather will also play a large part in how high energy prices stay and for how long.

3.2 Interest Rate Forecasts

The Council's treasury advisor, Link Group, have provided the following forecasts on 27th September 2022. The latest forecast sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to reduce inflation in the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the impact of ultra-high wholesale gas and electricity prices. The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the confidence investors have with the position of the UK public finances after September's "fiscal event". To that end, the MPC has increased short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control.

The current and previous PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

Additional notes by Link on this forecast table: -

- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of the previous forecasts, our money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

- The forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

3.3 Forecasts for Bank Rate (Provided by Link Asset Services)

- The central forecast for interest rates was previously updated on 9th August and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the "fiscal event" has complicated the picture for the MPC, who will now need to further address inflationary pressures stemming from the government's policies.

- Further down the road, it is anticipated the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

- The CPI measure of inflation will peak at close to 10.4% in November 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

- Regarding the "provisional" plan to sell £10bn of gilts back into the market each quarter, this is still timetabled to take place but not until October at earliest.

- In the upcoming months, forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

- On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

3.4 PWLB Rates

- The yield curve has shifted upwards since the August update and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.25% to 5.75%. The yield curve is currently inverted.

- The view is the markets have built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook but markets are volatile and further changes of gilt yields across the whole spectrum of the curve is possible.

3.5 The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).

- The Bank of England acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- Geopolitical risks, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than we currently expect.

- The Government acts too quickly to cut taxes and/or increases expenditure in the light of the cost-of-living squeeze.

- The pound weakens because of the UK's growing borrowing requirement resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer term US treasury yields continue to rise strongly and pull gilt yields up even higher than currently forecast.

3.6 Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, was approved by the Council on 7 March 2022.

The underlying TMSS approved previously requires revision in the light of economic and operational movements during the year. The proposed changes and supporting detail for the changes are set out below:

Prudential Indicator 2022/23	Original £'000	Revised Prudential Indicator £'000
Authorised Limit	43,000	43,000
Operational Boundary	38,241	39,068
External Debt	26,500	26,500
Investments	(13,000)	(12,000)
Net Borrowing	**13,500**	**14,500**
Capital Financing Requirement	38,241	39,068

4 The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow;
- Compliance with the limits in place for borrowing activity.

4.2 Prudential Indicator for Capital Expenditure

This Table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the budget. It draws together the main strategy elements of the capital expenditure plans, highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure by Cluster £'000	2022/23 Original Estimate £'000	2022/23 Revised Estimate £'000
Our People	1,911	3,863
Our Places	10,424	6,237
Our Council	637	400
Total capital expenditure	**12,972**	**10,500**
Financed by:		
Capital receipts	527	1,130
Capital grants	7,830	4,802
Earmarked Reserves	3,236	3,006
S106	1,236	1,462
Total Financing	**12,829**	**10,400**
Borrowing need	**143**	**100**

4.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR)

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

During the half year ended 30 September 2022, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy. The Director of Corporate Services (S151) reports that no difficulties are envisaged for the current or future years in complying with prudential indicators.

	2022/23 Original Estimate £'000	2022/23 Revised Estimate £'000
Prudential Indicators		
Capital Expenditure	12,972	10,500
Capital Financing Requirement (CFR)	**38,241**	**39,068**
Of Which Commercial Property	20,211	20,211
Annual Change in CFR	**(1,184)**	**(1,227)**
In year Borrowing Requirement	**26,500**	**26,500**
Under/(Over) Borrowing	**11,741**	**12,568**
Ratio of financing costs to net revenue stream	**10.34%**	**11.73%**
Incremental impact of capital investment decisions		
Increase/ Reduction(-) in Council Tax (band change per annum)	**£0.00**	**£3.17**

Please note the above prudential indicators assume a revenue provision will be made for the repayment of debts in 2022/23 of £0.898m.

4.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

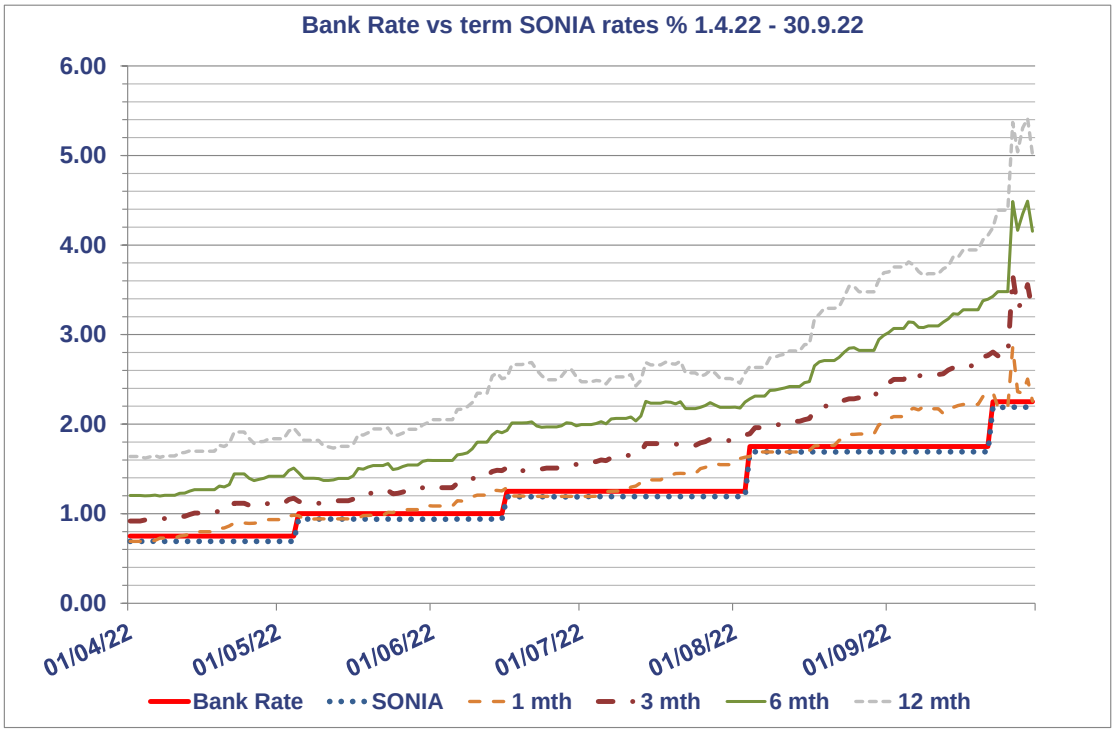
A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

5. Investment Portfolio 2022/23

In accordance with the CIPFA Treasury Management Code of Practice, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs.

As shown by the interest rate forecasts in section 3.2, rates are starting to return to levels not seen since before the financial crash of 2008 and the austerity measures which followed. This means investment returns are on an upward trajectory and indeed this is shown in the quarter two forecasting which shows increased investment income in 2022/23. If rates continue to move as anticipated the Council's MTFS for 2023/24 onwards will benefit.

The Council held £20.666m of investments as at 30 September 2022 (£20.032m at 31 March 2022). The annualised investment rate for the first six months of the year is 1.694% against the Sterling Overnight Indexed Average (SONIA) average rate of 1.22%. The weighted average interest rate is 1.689%. The yield reflects the £3m investment in the Local Authority Property Fund. SONIA measures the rate paid by banks on overnight funds and replaces the London Interbank Offered Rate (LIBOR) which is being phased out.



The Council's budgeted investment return for 2022/23 is £0.149m, and performance for the year is forecast to be £0.235m above budget at £0.384m, this is mainly due to increasing interest rates.

The Director of Corporate Services (S151) confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2022/23.

5.1 Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Treasury Officers continue to mitigate investment risk in accordance with Treasury Management Practices.

6. Borrowing

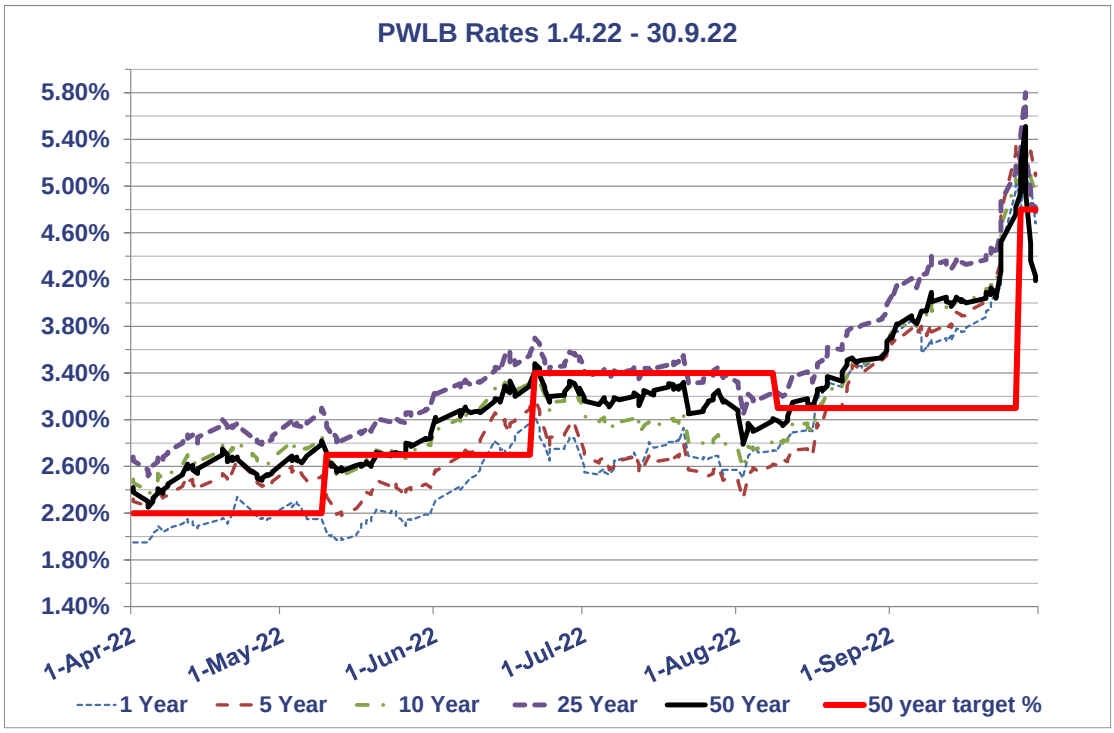
The Council's capital financing requirement (CFR) for 2022/23 was originally £38.241m which has now changed to £39.068m after the Council closed its accounts for 2021/22. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

Due to the overall financial position and the underlying need to borrow for capital purposes (the capital financing requirement - CFR), no new external borrowing was undertaken in the first six months of the financial year. External borrowing remains at £21.5m. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

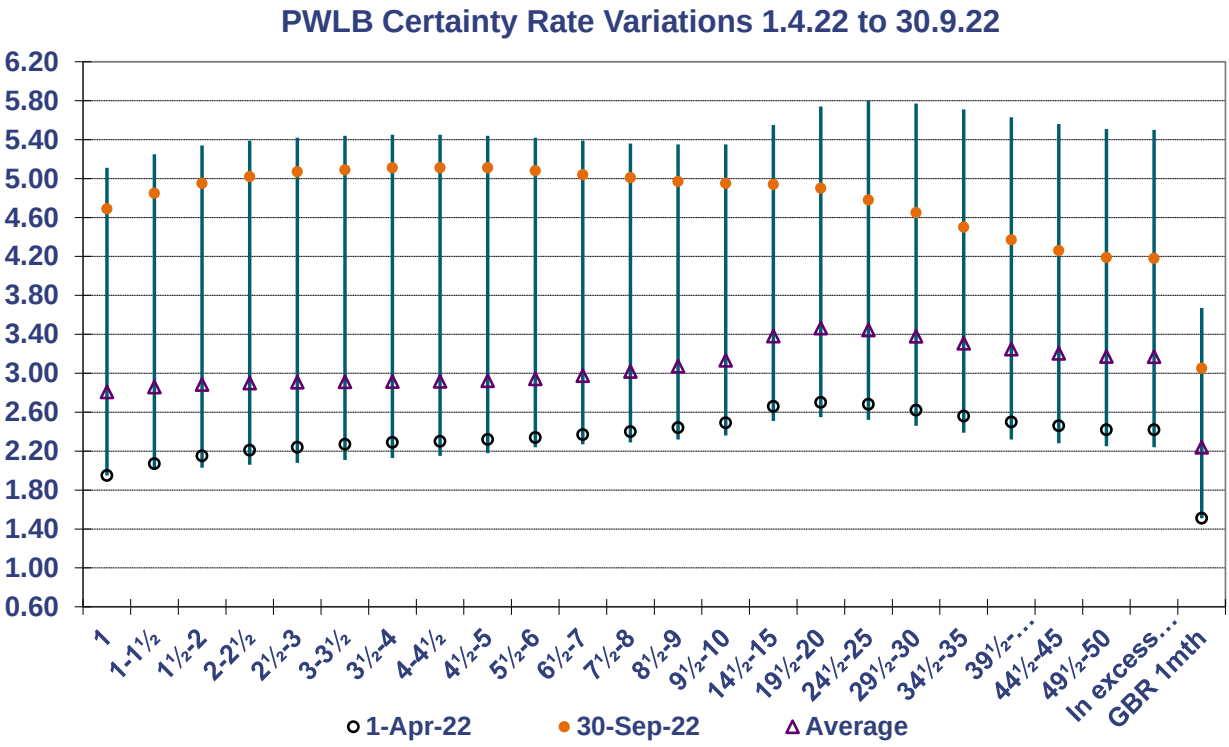
INTERNAL BORROWING: The Council forecasts that by the end of the financial year it will have cumulatively £12.568m of internal borrowing

It is anticipated that further short term external borrowing may be undertaken early next year to smooth peaks and troughs in cashflow.

The graph and table below show the movement in PWLB certainty rates for the first six months of the year:



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%



Appendix A: Economics update (Supplied by Link Asset Services)

- The second quarter of 2022/23 saw:
  - GDP in Q1 2022/23 revised upwards to 0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;
  - Signs of economic activity losing momentum as production fell due to rising energy prices;
  - CPI inflation ease to 9.9% y/y in August but domestic price pressures showing little sign of abating in the near-term;
  - The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;
  - Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;
  - Gilt yields surge and sterling fall following the "fiscal event" of the new Prime Minister and Chancellor on 23rd September.
- The UK economy grew by 0.2% in July following an upward revision to Q1's GDP data (+0.2% q/q), though revisions to historic data left it below pre-pandemic levels.
- There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the effect on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.
- The fall in the composite PMI from 49.6 in August to a 20-month low of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households' bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rise of £4.6bn.
- The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.

- CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below $90pb, we would expect to see fuel prices fall further in the coming months.
- However, utility price inflation is expected to add 0.7ppts to CPI inflation in October when the Ofgem unit price cap increases, typically, to £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.
- Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.
- The new Prime Minister and Chancellor have appeared to make a step change in government policy. The government's huge fiscal loosening from its significant tax cuts will add to these domestic inflationary pressures and will leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.
- Fears that the government has changed direction at pace on the back of these announcements has meant that the pound has weakened, adding further upward pressure to interest rates. Whilst the pound fell to a record low of $1.035 on the Monday following the government's "fiscal event", it has since recovered to around $1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November and the government will lay out a credible medium-term plan in the fiscal statement on 23rd November. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.
- Since the fiscal event, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023 (up from our previous forecast peak of 2.75%). The combination of the government's fiscal loosening, the tight labour market and inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% priced into the financial markets at present.
- Gilt yields rose sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's

extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which caused short term financial instability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.

- Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.
- There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.
- The S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite

APPENDIX B: Approved countries for investments as at 30 September 2022

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- **U.K.**