

November 14, 2017

# Bank of England Rate Hike: The first in a decade



At its November meeting, the Bank of England (BoE) hiked interest rates for the first time in a decade.

The committee's decision to raise the base-rate by 25 basis points to 0.5%, was seemingly due to the fact that inflation is over-shooting the bank's 2% target by a whole percentage point. Policymakers may have also been emboldened by the fact that the British economy expanded by 0.4% in the third quarter, outpacing economists' expectations.

Nonetheless, the communication surrounding the hike was more ominous. In the Bank's policy statement explaining the rise, it was cautioned that there are still "considerable risks to the outlook" due to uncertainty over Brexit. Further increases in the base rate are likely to be limited and gradual and this guidance is what influenced the market's reaction.

Following the Bank's dovish announcement, Sterling dropped more than a full cent against the US dollar. In advance of the meeting, the pound hovered around the \$1.30 mark, bolstered by

expectations of tighter interest rate policy. Given that the UK imports roughly half of the goods it consumes, inflation is tightly linked to exchange rates and a stronger pound is needed to curb inflationary pressures.

In the fixed income market, the yields on UK government bonds (gilts) were seen dropping as prices started to rise. In the equity space, the main UK stock index, the FTSE 100 saw gains of roughly 1% – largely driven by the fact that its performance is tethered to the value of the pound.

Though the outlook for the UK economy has a dark, Brexit-shaped cloud hanging over it, the BoE was under increasing scrutiny for keeping rates so low. Pensioner groups and savers argued that it has favoured borrowers over savers and fuelled inequality. Criticism of Threadneedle Street's low-interest rate policy has been brewing since late 2016. In October, Prime Minister, Theresa May, stated that low interest rates and the billion-pound Quantitative Easing scheme, had 'bad side effects' stating that 'a change has got to come'. This came at the same time as William Hague, the former foreign secretary and a former leader of the Conservative Party, published an article in the Telegraph listing '10 serious drawbacks' of low interest rates. The list highlights the fact that low rates has driven savers into riskier assets in their hunt for returns, which has in turn inflated the values of equities and property.

Albeit, the Bank's so-called 'one and done' hike is not likely to make a significant difference to the outlook for the British economy. Rather, in the near-term, the trajectory of the UK economy will largely be shaped by Brexit negotiations and the value of the pound. Some commentators suggest that the BoE has little ability to control either.

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