Revised Interest Rate Forecast –Capita 15 November 2016

	NOW	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
BANK RATE	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.75	0.75
3 month LIBID	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.40	0.50	0.60	0.70	0.80	0.90
6 month LIBID	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.50	0.60	0.70	0.80	0.90	1.00
12 month LIBID	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.80	0.80	0.90	1.00	1.10	1.20	1.30	1.40
5 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.70
25 yr PWLB	3.00	2.90	2.90	2.90	2.90	3.00	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.30	3.40
50 yr PWLB	2.70	2.70	2.70	2.70	2.70	2.80	2.80	2.80	2.90	2.90	3.00	3.00	3.10	3.10	3.20

The forecast for a cut to Base in August to 0.10% has been removed. Capita's central view is that Base Rate will remain unchanged at 0.25% until June 2019 where it will increase to 0.50% then to 0.75% by the end of March 2020. These are very moderate increases. They do acknowledge, along with the Bank of England, that rates could go up or down depending on how economic data evolves in the coming months and that any forecast as far ahead as 2019 should be taken with a huge caveat.

The forecast for long term rates have increased from the last forecast by around 0.50%-0.70%. Gilt yields have risen sharply since hitting a low point in mid-August, reflecting the sharp rise in growth expectations since August, robust consumer confidence, and inflation expectations increasing due to the fall in Sterling. Capita have increased their borrowing target levels to 1.60% -5 year (from 1.00%), 2.30% - 10 year (from 1.50%), 2.90% -25 year (from 2.30%) and 2.70% -50 year (from 2.10%).

Capita point out that rates are volatile and difficult to predict. The speed of the any increase in the US rate may impact on our rates. The results of Brexit negotiations will also be a factor. They see the risks to rates being more weighted to a fall rather than an increase, due to uncertainties that exist.

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