# Treasury Management Report Q3 2021/22

## Introduction

In March 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports. This quarterly report provides an additional update.

The Authority's treasury management strategy for 2021/22 was approved at a meeting on 3rd March 2021. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

The 2021 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 3rd March 2021.

## External Context

**Economic background:** The economic recovery from coronavirus pandemic, together with higher inflation and higher interest rates were major issues over the period.

The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 but maintained its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 in favour of raising rates, and unanimously to maintain the asset purchase programme.

Within the announcement the MPC noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the Bank also considered the UK economy to be evolving in line with expectations, however the increased uncertainty and risk to activity the new variant presents, the Bank revised down its estimates for Q4 GDP growth to 0.6% from 1.0%. Inflation was projected to be higher than previously forecast, with CPI likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4% compared to 4.5% forecast previously but notes that Omicron could weaken the demand for labour.

UK CPI for November 2021 registered 5.1% year on year, up from 4.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 4.0% y/y from 3.4%. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%.

Government support in the form of the furlough scheme ended on 30th September 2021 but the subsequent impact on jobs appears to have been more muted than previously been feared. In October 2021, the headline 3-month average annual growth rate for wages were 4.9% for total pay and 4.3% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 1.7% while regular pay was up 1.0%. The change in pay growth has been affected by a change in composition of employee jobs, where there has been a fall in the number and proportion of lower paid jobs.

Gross domestic product (GDP) grew by 1.1% in the third calendar quarter of 2021 according to the final estimate (initial estimate 1.3%), compared to a gain of 5.4% q/q in the previous quarter, with the annual rate slowing to 6.8% from 23.6%. The data however predates the escalation in virus infections caused by the Omicron variant in December which will very likely result in a slowdown in activity in Q4.

GDP growth in the euro zone increased by 2.2% in calendar Q3 2021 following an upwardly revised gain of 2.2% in the second quarter and decline of -0.2% in the first. Headline inflation has been strong, with CPI registering 5.0% year-on-year in December, the sixth successive month of inflation. Core CPI inflation was 2.6% y/y in December, unchanged from November but well up from July's recent low of 0.7% y/y. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at an upwardly revised annualised rate of 2.3% in Q3 2021, slowing sharply from gains of 6.7% and 6.3% respectively in the previous two quarters. In its December 2021 interest rate announcement, the Federal Reserve continue to maintain the Fed Funds rate at between 0% and 0.25% but outlined its plan to reduce its asset purchase programme earlier than previously stated and signalled they are in favour of tightening interest rates at a faster pace in 2022, with three 0.25% movements now expected.

**Financial markets:** Ongoing monetary and fiscal stimulus together with rising economic growth supported equity markets over the period, but higher inflation and the prospect of higher interest rates mixed with a new coronavirus variant ensured it was a bumpy period. The Dow Jones hit another record high during the quarter while the UK-focused FTSE 250 index continued making gains over pre-pandemic levels. The more internationally focused FTSE 100 saw more modest gains over the period and remains below its pre-crisis peak.

Inflation worries dominated bond yield movements over the period as initial expectations for transitory price increases turned into worries higher inflation was likely to persist for longer meaning central bank action was likely to start sooner and rates increase at a faster pace than previously thought.

The 5-year UK benchmark gilt yield began the quarter at 0.62% before rising to 0.82%. Over the same period the 10-year gilt yield fell from 1.00% to 0.97% and the 20-year yield declined from 1.35% to 1.20%.

The Sterling Overnight Rate (SONIA) averaged 0.07% over the quarter.

**Credit review:** Relatively benign credit conditions caused credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly but have since continued their downward trajectory.

The pronounced gap in spreads between UK ringfenced and non-ringfenced entities continued to narrow and has now all but disappeared. At the end of the period Barclays Bank Plc was trading the highest at 53bps and Santander UK Plc the lowest at 26bps. The other ringfenced banks were trading between 34-37bps and Nationwide Building Society was 44bps.

There were a small number of credit rating and outlook changes over the period with Moody's downgrading DZ Bank to Aa2 and upgrading Co-operative Bank to Ba3 while Fitch revised the outlook

on Australia and Rabobank to stable and S&P upgraded Nationwide BS, Standard Chartered Bank and Danske Bank to A+.

The ongoing vaccine rollout programme is credit positive for the financial services sector in general but there remains uncertainty around the full extent of the losses banks and building societies will suffer due to the pandemic-related economic slowdown, but the sector is in a generally better position now compared to earlier this year and 2020.

At the end of the period Arlingclose had completed its full review of its credit advice on unsecured deposits for UK and non-UK institutions whereby the maximum duration for all recommended counterparties were extended to 100 days.

As ever, the institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review.

**Local Context**

On 31st March 2021, the Authority had net borrowing of £34.3m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

| | **31.3.21 Actual £000** |
|---|---|
| General Fund CFR | 65,267 |
| HRA CFR | 73,726 |
| **Total CFR** | **138,993** |
| Less: Usable reserves | (90,805) |
| Less: Working capital | (13,875) |
| **Net borrowing** | **34,313** |

Low official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Authority pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk.

The treasury management position on 31st December 2021 and the change during over the year is shown in Table 2 below.

Table 2: Treasury Management Summary

| | **31.3.21 Balance £000** | **Movement £000** | **31.12.21 Balance £000** | **31.12.21 Rate %** |
|---|---|---|---|---|
| Long-term borrowing | 73,187 | 1,232 | 74,419 | |
| Short-term borrowing | 18,443 | (7,443) | 11,000 | |
| **Total borrowing** | **91,631** | | **85,419** | **3.46%** |
| Long-term investments | 49,549 | 451 | 50,000 | |
| Short-term investments | 4 | 0 | 4 | |

| | 31.3.21 Balance £000 | Movement £000 | 31.12.21 Balance £000 | 31.12.21 Rate % |
|---|---|---|---|---|
| Cash and cash equivalents | 7,765 | 13,513 | 21,278 | |
| **Total investments** | **57,318** | **13,964** | **71,282** | **3.08%** |
| **Net borrowing** | **34,313** | | **14,137** | |

Cash and cash equivalents increased by £13.5m due to £7.7m grant funding received from DEFRA for Port Health operational set up and higher than anticipated cash flow balance at end of December.

**Borrowing Update**

CIPFA published a revised Prudential Code for Capital Finance in Local Authorities on 20th December 2021. The Code took immediate effect although local authorities may defer introducing the revised reporting requirements until the 2023/24 financial year if they wish.

In order to comply with the Code, authorities must not borrow to invest primarily for financial return. The Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure.

The changes align the CIPFA Code with the PWLB which prohibits access to authorities planning to purchase 'investment assets primarily for yield' except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

The Authority was not planning to borrow to invest primarily for commercial return and so is unaffected by these changes.

**Borrowing Strategy during the period**

At 31st December 2021 the Authority held £85.4m of loans, a decrease of £6.2m since 31st March 2021, as part of its strategy for funding previous years' capital programmes. Outstanding loans on 31st December are summarised in Table 3 below.

Table 3: Borrowing Position

| | 31.3.21 Balance £000 | Net Movement £000 | 31.12.21 Balance £000 |
|---|---|---|---|
| Public Works Loan Board | 75,631 | (1,212) | 74,419 |
| Local authorities (short-term) | 16,000 | (5,000) | 11,000 |
| **Total borrowing** | **91,631** | **(6,212)** | **85,419** |

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

In keeping with these objectives, no new long term borrowing was undertaken. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

With short-term interest rates remaining much lower than long-term rates, the Authority considered it to be more cost effective in the near term to use internal resources or borrowed rolling temporary / short-term loans instead. The net movement in temporary / short-term loans is shown in table 3 above.

PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

**Treasury Management Investment Activity**

CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £71.2m and £53.7m million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

| | **31.3.21 Balance £000** | **Net Movement £000** | **31.12.21 Balance £000** | **31.12.21 Income Return %** |
|---|---|---|---|---|
| Banks & building societies (unsecured) | 7,764 | 3,164 | 10,928 | 0.10% |
| Money Market Funds | 5 | 10,349 | 10,354 | 0.10% |
| Other Pooled Funds | | | | |
| - *Short-dated bond funds* | 8,032 | (32) | 8,000 | |
| - *Strategic bond funds* | 8,386 | (386) | 8,000 | |
| - *Property funds* | 5,585 | 415 | 6,000 | |
| - *Multi asset income funds* | 27,546 | 454 | 28,000 | |
| Other pooled funds sub-total | 49,549 | 451 | 50,000 | 3.46% |
| **Total investments** | **57,318** | **13,964** | **71,282** | |

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Ultra low short-dated cash rates which have been a feature since March 2020 when Bank Rate was cut to 0.1% have resulted in the return on sterling low volatility net asset value money market funds (LVNAV MMFs) being close to zero even after some managers have temporarily waived or lowered their fees.

Deposit rates with the Debt Management Account Deposit Facility (DMADF) remain very low with rates ranging from 0% to 0.1% depending on the length of deposit.

The Authority's investments are diversified into more secure and/or higher yielding asset classes as shown in table 4 above. £50m that is available for the longer term investment is invested in pooled investment funds.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

| | **Credit Score** | **Credit Rating** | **Bail-in Exposure** | **Weighted Average Maturity (days)** | **Rate of Return %** |
|---|---|---|---|---|---|
| 31.03.2021 | 5.33 | A+ | 100% | 1 | 3.01% |
| 31.12.2021 | 5.13 | A+ | 100% | 1 | 4.14% |
| **Similar LAs** | 4.64 | A+ | 68% | 37 | 2.79% |
| **All LAs** | 4.64 | A+ | 66% | 16 | 1.95% |

**Externally Managed Pooled Funds**: £50m of the Authority's investments are in externally managed strategic pooled bond, multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and longer-term price stability. These funds generated an average total return of 5.67%, comprising a 2.03% income return which is used to support services in-year, and 3.64% of unrealised capital growth.

The Authority is invested in bond, multi-asset and property funds. The improved market sentiment in the past 9 months is reflected in property and multi-asset fund valuations and, in turn, in the capital values of the Authority's property and multi-asset income funds in the Authority's portfolio. The prospect of higher inflation and rising bond yields have however resulted in muted bond fund performance. The change in capital values and income earned is shown in Table 4.

Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.

The Authority has budgeted £1,673k income from these investments in 2021/22.

## Non-Treasury Investments

The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Following the approval of the Property Investment Strategy in November 2016, work continues to identify and progress suitable investments to deliver economic regeneration and to generate additional income streams for the future.

The 2021/22 budget includes a forecast of total income (rent and service charges) of £1.94m. Costs including management costs, minimum revenue provision and long term borrowing of £1.30m are forecast resulting in retained income for the General Fund of £640k.

## Treasury Performance

The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

| | Actual £000 | Budget £000 | Over/ under | Actual % |
|---|---|---|---|---|
| Interest Received | 1,475 | 1,673 | (198) | 3.08% |
| Interest Payable | 2,521 | 2,521 | 0 | 3.46% |

## Compliance

The Strategic Director of Corporate Resources reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

Table 7: Debt Limits

| | 31.12.21 Actual | 2021/22 Operational Boundary | 2021/22 Authorised Limit | Complied? |
|---|---|---|---|---|
| Borrowing | £85.4m | £333m | £338.5m | ✓ |

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Table 8: Investment Limits

| | 31.12.21 Actual | 2021/22 Limit | Complied? |
|---|---|---|---|
| Local authorities & other government entities | 0 | unlimited | ✓ |
| Banks (unsecured) | <1m | £8m per bank | ✓ |
| Any group of pooled funds under the same management (limits per manager) | 0 | £16m per group | ✓ |
| Negotiable instruments held in a broker's nominee account | 0 | £15m | ✓ |
| Building societies (unsecured) | 0 | £8m | ✓ |
| Money market funds | £10.4m | £10m per fund | ✓ |
| Strategic pooled funds | £50m | £10m per fund | ✓ |
| Operational bank | £10.9m | £20m | ✓ |

**Treasury Management Indicators**

The Authority measures and manages its exposures to treasury management risks using the following indicators.

**Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

| | 31.12.21 Actual | 2021/22 Target | Complied? |
|---|---|---|---|
| Portfolio average credit rating | 5.13 | 6 | ✓ |

**Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing / it can borrow each period without giving prior notice.

| | 31.12.21 Actual | 2021/22 Target | Complied? |
|---|---|---|---|
| Total cash available within 3 months | £21.3m | £8m | ✓ |

**Interest Rate Exposures**: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

| Interest rate risk indicator | 31.12.21 Actual | 2021/22 Limit | Complied? |
|---|---|---|---|
| Upper limit on one-year revenue impact of a 1% rise in interest rates | 500 | 500 | ✓ |
| Upper limit on one-year revenue impact of a 1% fall in interest rates | 500 | 500 | ✓ |

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

**Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

| | 31.12.21 Actual | Upper Limit | Lower Limit | Complied? |
|---|---|---|---|---|
| Under 12 months | 12,231 | 25% | 0% | ✓ |
| 12 months and within 24 months | 3,812 | 50% | 0% | ✓ |
| 24 months and within 5 years | 8,188 | 50% | 0% | ✓ |
| 5 years and within 10 years | 16,493 | 100% | 0% | ✓ |
| 10 years and above | 44,695 | 100% | 0% | ✓ |

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

**Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

| | 2021/22 | 2022/23 | 2023/24 |
|---|---|---|---|
| Actual principal invested beyond year end | 0 | 0 | 0 |
| Limit on principal invested beyond year end | £30m | £30m | £30m |
| Complied? | ✓ | ✓ | ✓ |

**Other Revisions to CIPFA Codes**

CIPFA published revised Prudential and Treasury Management Codes in December 2021. The Prudential Code takes immediate effect although detailed reporting requirements may be deferred until the 2023/24 financial year and have thus not been included in this report. There is no mention of the date of initial application of the TM Code.

The accompanying guidance notes to the Codes including the treasury management prudential indicators have not yet been published. The main changes or expected changes from previous codes that have not already been discussed above include:

- Additional reporting requirements for the Capital Strategy.
- For service and commercial investments, in addition to assessments of affordability and prudence, an assessment of proportionality in respect of the Authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).
- Forward looking prudential code indicators must be monitored and reported to members at least quarterly.
- A new indicator for net income from commercial and service investments to net revenue stream.
- Inclusion of the liability benchmark as a treasury management prudential indicator. CIPFA recommends this is presented as a chart of four balances – existing loan debt outstanding; loans CFR, net loans requirement, liability benchmark – over at least 10 years and ideally cover the

authority's full debt maturity profile.

- Excluding investment income from the definition of financing costs.
- Credit and counterparty policies should set out the Authority's policy and practices relating to Environmental, Social and Governance (ESG) investment considerations.
- Additional focus on the knowledge and skills of officers and elected members involved in decision making.

**Arlingclose's Outlook for the remainder of 2021/22 and beyond**

| | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Official Bank Rate | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.00 | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Arlingclose Central Case | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Downside risk | 0.00 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 |

Arlingclose expects Bank Rate to rise again in Q1 2022. We believe the MPC will want to build on the strong message it delivered in December month by tightening policy despite Omicron uncertainty.

Arlingclose therefore expects Bank Rate to rise to 0.50% in Q1 2022, but then remain there. Risks to the forecast are initially weighted to the upside but becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.

Gilt yields are expected to remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank Rate have maintained short term gilt yields at higher levels.

Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations.

The risks around the gilt yield forecasts vary. The risk for short and medium term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.

Despite relatively buoyant activity survey data, official GDP data indicates that growth was weakening into Q4 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, PMIs increased, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated.

The CPI inflation rate rose to 5.1% for November and will rise higher in the near term. While the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is persistent medium term price pressure.

These factors prompted the MPC to raise Bank Rate to 0.25% at the December meeting. Short term interest rate expectations remain elevated.

The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – Q4 and Q1 activity could be weak at best.

Longer-term government bond yields remain relatively low despite the more hawkish signals from

the BoE and the Federal Reserve. Investors are concerned that significant policy tightening in the near term will slow growth and prompt the need for looser policy later. Geo-political and coronavirus risks are also driving safe haven buying. The result is a much flatter yield curve, as short-term yields rise even as long-term yields fall.

The rise in Bank Rate despite the Omicron variant signals that the MPC will act to bring inflation down whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown.