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- MPC leaves rates unchanged, and pushes back against cut expectations
 - UK headline inflation continues its decline
 - DMO remit change smaller than forecasts

Market Commentary

November saw, for the second consecutive meeting, the Bank of England's (BoE) Monetary Policy Committee (MPC) leave the base rate unchanged at 5.25%. Market views suggest there is growing confidence that the next move will be a rate cut.

However, several MPC members, including Andrew Bailey, pushed back against expectations of cuts in early 2024. Bailey stated, 'We are not in a place now where we can discuss cutting interest rates — that is not happening. We need to see how the final part of the journey down to 2 percent inflation plays out; we have not seen enough of that journey yet to be confident.'

Consistent with moves seen in other developed fixed income markets, UK gilt yields fell across the month, with the 30-year nominal rate closing November below 4.7%, and over 40 bp lower than the peak seen in mid-October. The front-end of the curve saw moves of a similar magnitude, with 5-year gilt yields dropping almost 30 bp and closing the month below 4.2%.

The latest UK headline Consumer Price Index (CPI) print for October came in modestly below expectations, falling to 4.6% YoY from the 6.7% YoY print seen in September. Much of this fall was attributable to energy prices, resulting in a more muted decline in core CPI inflation, which excludes more volatile components, although it was also slightly below market expectations.

Accompanying the Chancellor's Autumn Statement, the UK Debt Management Office revised its issuance remit for the remainder of the 2023–24 fiscal year. However, the cut of just £0.5 billion in gilt issuance was well below the pre-release expectations of a reduction between £10–25 billion. As a result, Q1 2024 will see a large amount of gilt supply to digest, with the BoE's quantitative tightening programme also continuing alongside.

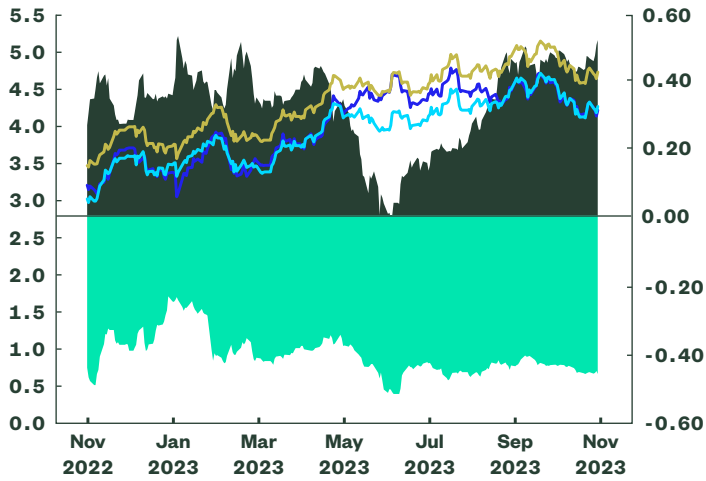
Figure 1 Market Moves

| 30 November 2023 | Gilt Yields | | OIS Swaps | | Swap Spreads | | Gilt Real Yields | | Gilt Breakeven | | RPI Swaps | | Iota Spread | |
|------------------|-------------|----------|-----------|----------|--------------|----------|------------------|----------|----------------|----------|-----------|----------|-------------|----------|
| | % | CoM (bp) | % | CoM (bp) | bp | CoM (bp) | % | CoM (bp) | % | CoM (bp) | % | CoM (bp) | bp | CoM (bp) |
| 5yr | 4.17 | -29.1 | 4.18 | -32.5 | 37.7 | -11.6 | 0.47 | -13.3 | 3.70 | -15.8 | 3.87 | -27.1 | 17.4 | -11.3 |
| 10yr | 4.17 | -33.7 | 4.01 | -35.6 | -28.2 | -5.6 | 0.57 | -17.7 | 3.60 | -16.1 | 3.67 | -18.8 | 6.7 | -2.7 |
| 30yr | 4.69 | -28.5 | 3.95 | -36.1 | -65.6 | -5.5 | 1.35 | -20.0 | 3.32 | -8.9 | 3.29 | -10.2 | -3.1 | -1.3 |
| 50yr | 4.22 | -31.2 | 3.75 | -33.2 | -47.0 | -6.0 | 0.98 | -17.5 | 3.24 | -13.7 | 3.18 | -11.7 | -5.9 | 2.0 |
| 10s30s | 0.52 | 5.2 | -0.06 | -0.5 | -37.4 | 0.1 | 0.78 | -2.3 | -0.28 | 7.2 | -0.37 | 8.6 | -9.8 | 1.4 |
| 30s50s | -0.47 | -2.7 | -0.21 | 3.0 | 18.6 | -0.5 | -0.37 | 2.5 | -0.08 | -4.8 | -0.11 | -1.5 | -2.8 | 3.3 |

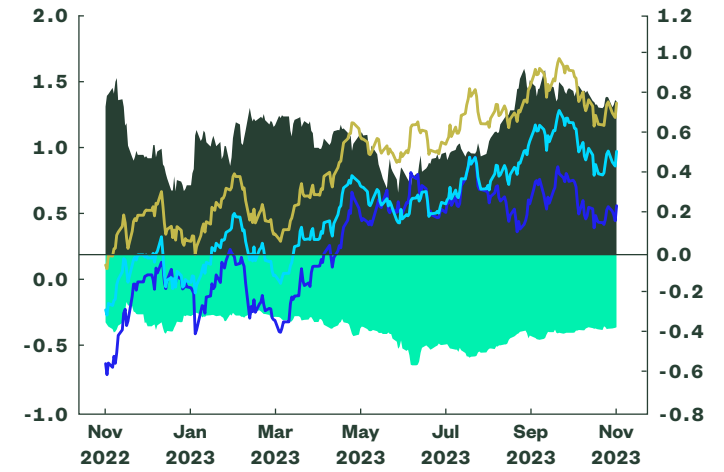
Source: Bloomberg, State Street Global Advisors, as at 30 November 2023. Past performance is not a reliable indicator of future performance.

Figure 2 Market Curves

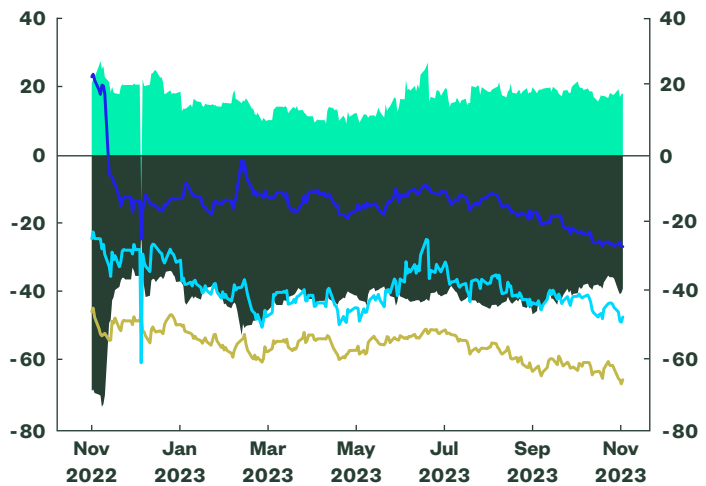
Nominal Gilt Yields (%)



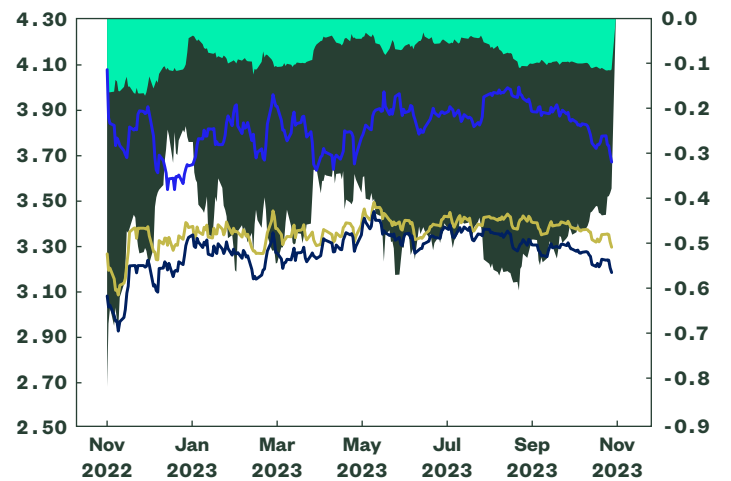
Real Gilt Yields (%)



OIS Swap Spreads (bp)



RPI Swaps (%)



■ 10s30s (RHS) ■ 30s50s (RHS) ■ 10yr ■ 30yr ■ 50yr

Source: Bloomberg, State Street Global Advisors, as at 30 November 2023. Past performance is not a reliable indicator of future performance.

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