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- Monetary Policy Committee (MPC) leaves policy interest rates unchanged at 5.25%.
 - UK year-on-year inflation data stronger than expected.
 - Gilt yields moved higher across January.

Market Commentary

The Bank of England's MPC, at February's meeting, elected to keep the base rates at 5.25% for a fourth consecutive time. However, there were some signs that the next move in interest rates is more likely to be a cut. The MPC chose to drop its tightening bias, instead suggesting that it "will keep under review for how long [the] bank rate should be maintained at its current level."

The MPC lowered its near-term modal forecast for inflation to 2% for the second quarter of 2024 from their previous forecast of 3.6%, primarily due to lower utility prices. However, they have raised their three-year modal forecast from 1.5% to 1.9%.

Additionally, the MPC increased its expectations for growth over the forecast period. With less economic slack building up over time, it now believes second-round effects in domestically generated inflation might take longer to unwind than they did to emerge.

Markets now expect the first interest rate cut to be around the middle of the year, with a total of 86 bp of cuts priced in for 2024.

Yields rose substantially over January, with 30-year and 50-year nominal yields rising 32 bp and 37 bp respectively. Real yields moved in a similar fashion, with 30-year and 50-year real yields increasing by 34 bp and 36 bp respectively.

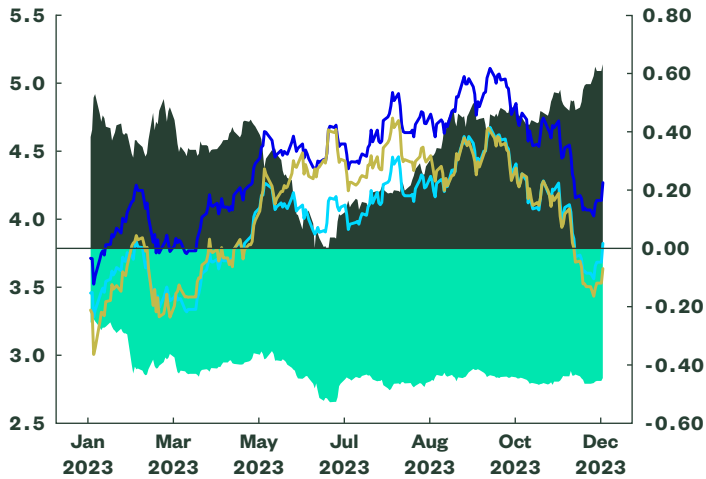
Figure 1 Market Moves

31 January 2024	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	3.74	28.7	3.64	26.4	29.3	10.2	0.02	16.9	3.72	11.9	3.75	3.6	3.2	-8.3
10yr	3.79	26.2	3.59	29.6	-30.3	4.8	0.28	22.9	3.51	3.3	3.55	1.8	4.0	-1.5
30yr	4.45	31.6	3.71	35.4	-68.5	-1.4	1.29	33.8	3.15	-1.4	3.18	0.3	2.2	1.7
50yr	4.05	37.2	3.52	41.5	-51.2	-2.4	0.96	36.3	3.09	0.9	3.04	0.7	-5.4	-0.2
10s30s	0.66	5.4	0.13	5.8	-38.2	-6.2	1.01	10.9	-0.36	-4.7	-0.38	-1.5	-1.8	3.2
30s50s	-0.40	5.6	-0.19	6.1	17.3	-1.0	-0.32	2.5	-0.06	2.3	-0.14	0.4	-7.5	-1.9

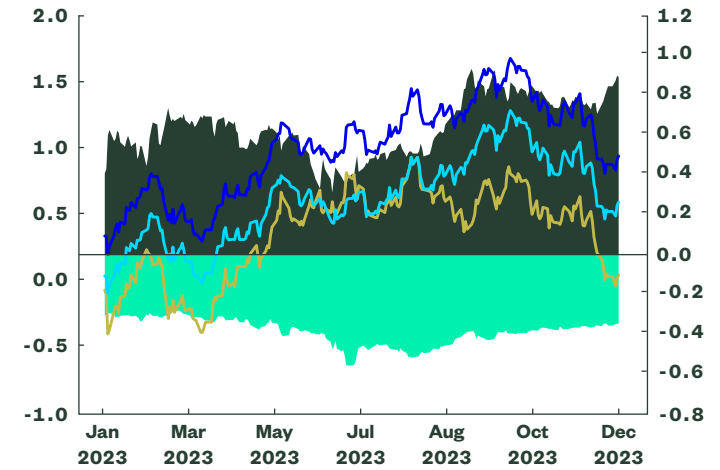
Source: Bloomberg, State Street Global Advisors, as at 31 January 2024. Past performance is not a reliable indicator of future performance.

Figure 2 Market Curves

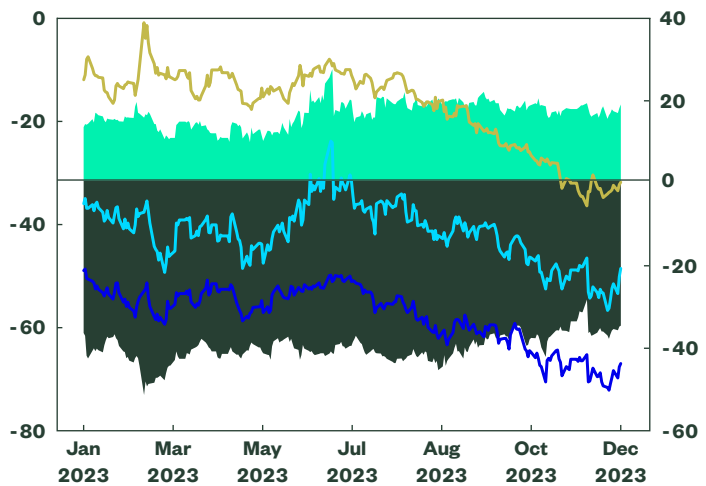
Nominal Gilt Yields (%)



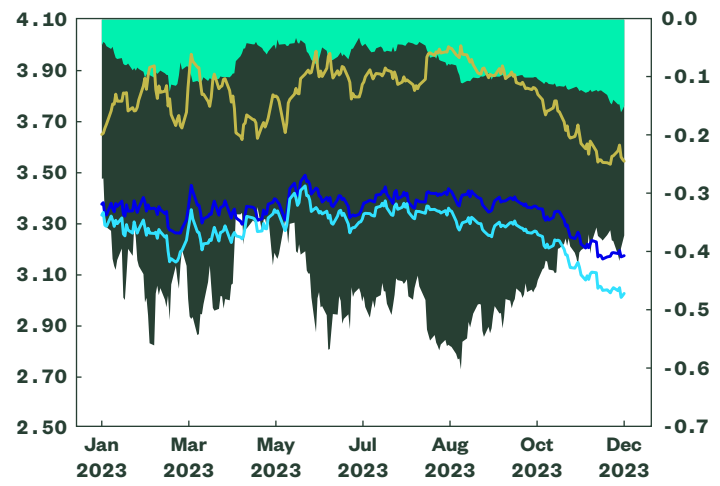
Real Gilt Yields (%)



OIS Swap Spreads (bp)



RPI Swaps (%)



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

Source: Bloomberg, State Street Global Advisors, as at 31 January 2024. Past performance is not a reliable indicator of future performance.

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