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- Monetary Policy Committee (MPC) leaves rates and forward guidance unchanged.
 - UK headline inflation falls faster than expected.
 - Gilt yields moved sharply lower, closing 2023 relatively little changed.

Market Commentary

The December meeting of the Bank of England's (BoE) Monetary Policy Committee maintained the base rate at 5.25% for the third consecutive time. Three committee members voted for a 25 bp hike and forward guidance remained that "monetary policy is likely to need to be restrictive for an extended period of time." However, over the month, market pricing of a cut in rates shifted earlier (from August to May), and the number of expected cuts for 2024 also grew, with close to 175 bp priced in by year-end.

This shift in expectations gained further momentum from the latest UK inflation data, which showed the headline Consumer Price Index (CPI) for November dropping to 3.9% YoY (from 4.6% YoY in October), well below economist forecasts of 4.3% YoY. Core CPI, which excludes more volatile components like food and energy, remains higher at 5.1% YoY, but this was also well below its expected level of 5.6% YoY.

Nominal gilt yields moved significantly lower across the month, with 30-year rates falling 55 bp over December. Falls at the front end of the curve were even greater, with 5-year rates rallying over 70 bp MoM.

Overall in 2023, nominal gilt yields closed relatively little changed from their starting levels, with 5-year yields finishing the year around 15 bp lower, and 30-year yields just under 20 bp higher. However, these measures mask the volatility seen, with 5-year rates seeing a range across 2023 of over 210 bp and 30-year rates a range of 170 bp.

Inflation expectations finished 2023 lower across the curve, closing the year towards the bottom of their annual ranges. Falls were larger at shorter tenors, with 5-year swap inflation dropping over 50 bp across the year, and 30-year swap inflation moving lower by almost 20 bp.

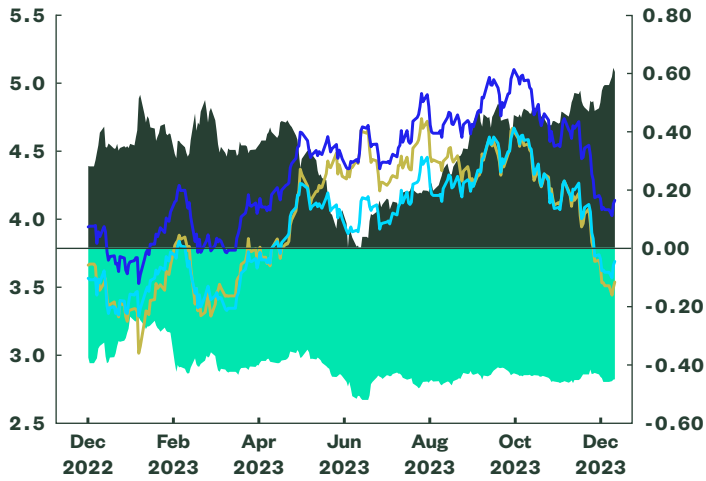
Figure 1 Market Moves

29 December 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	3.45	-71.5	3.38	-80.7	19.1	-18.6	-0.15	-62.0	3.60	-9.5	3.71	-15.4	11.5	-5.9
10yr	3.53	-64.3	3.29	-72.2	-35.1	-6.9	0.05	-52.2	3.48	-12.0	3.53	-13.3	5.5	-1.3
30yr	4.14	-55.1	3.36	-59.4	-67.1	-1.5	0.95	-40.1	3.17	-15.4	3.17	-11.9	0.4	3.5
50yr	3.68	-53.8	3.11	-64.0	-48.8	-1.8	0.60	-38.2	3.08	-15.6	3.03	-14.9	-5.2	0.7
10s30s	0.61	9.1	0.07	12.8	-32.0	5.4	0.90	12.1	-0.31	-3.4	-0.36	1.4	-5.0	4.8
30s50s	-0.46	1.3	-0.25	-4.6	18.3	-0.3	-0.35	1.9	-0.09	-0.2	-0.14	-3.0	-5.6	-2.8

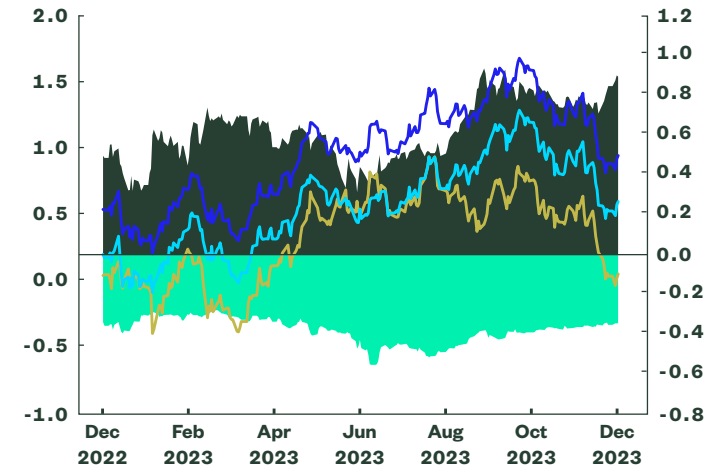
Source: Bloomberg, State Street Global Advisors, as at 31 December 2023. Past performance is not a reliable indicator of future performance.

Figure 2 Market Curves

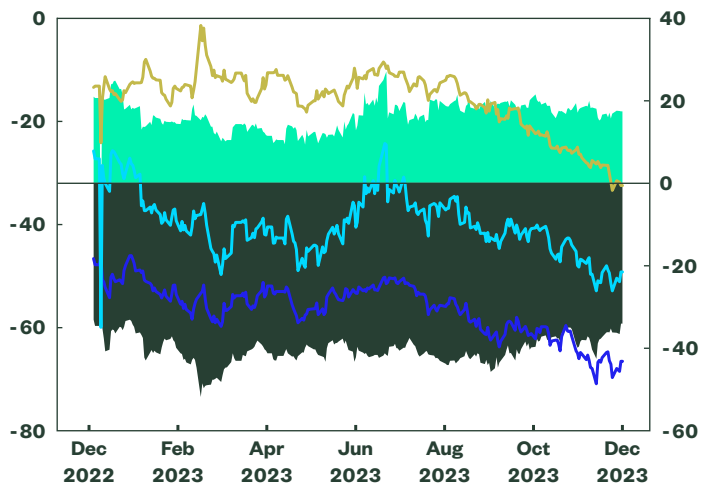
Nominal Gilt Yields (%)



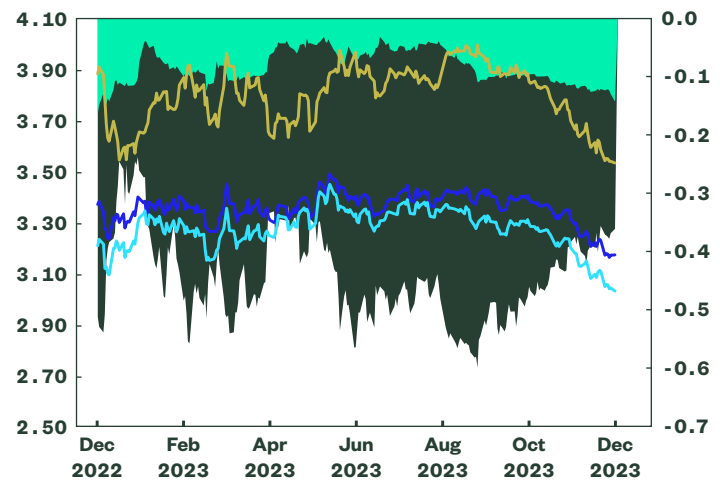
Real Gilt Yields (%)



OIS Swap Spreads (bp)



RPI Swaps (%)



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

Source: Bloomberg, State Street Global Advisors, as at 31 December 2023. Past performance is not a reliable indicator of future performance.

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* Pensions & Investments Research Center, as of December 31, 2022.

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