

Economic News

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Bank of England cuts repo rate by 25bp, as expected.

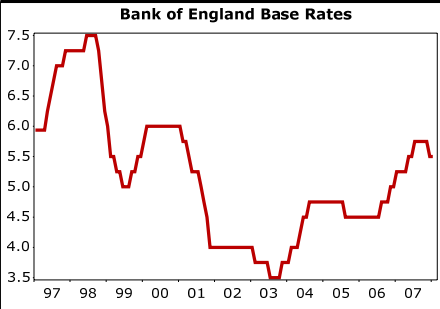
As expected, **the Bank of England has cut its repo rate by 25bp** (to 5.25%) after its regular February MPC Meeting, the second rate cut in the current cycle and **with more monetary easing likely to come throughout 2008 as the economy softens.**

The accompanying statement **confirms a still very cautious mood on the MPC, with increased downside growth risks obviously acknowledged, but inflation remains a concern at this stage – arguably excessively so, but this is another story.** The BoE states that *'The prospects for output growth abroad have deteriorated and the disruption to global financial markets has continued...in the UK, credit conditions for households and business are tightening. Consumer spending growth appears to have eased. Although the substantial fall in the sterling exchange rate is likely to promote re-balancing of total demand, output growth has moderated to around its historical average rate and business surveys suggest that further slowing is in prospect. These developments pose downside risks to the outlook for inflation.'* **But inflation remains an issue for the MPC too:** *'... measures of inflation expectations are currently elevated. These developments pose upside risks to the outlook for inflation further ahead.'* In its conclusion, the MPC indicates that *'The Committee needs to balance the risk that a sharp slowing in activity pulls inflation below the target in the medium term against the risk that elevated inflation expectations keep inflation above target'*.

All very balanced and overall, **this does not sound like a Central Bank in a particularly dovish mood at this stage**, which is consistent with our view that **the BoE monetary easing will be of a gradual nature this year, with a 25bp rate cut per quarter approach likely to be favoured as the economy decelerates below trend and upside inflation risks gradually recede.** We expect the next rate cut in April or May depending on how quickly UK indicators deteriorate.

From a mkt perspective, today's decision is not much of a surprise, hence a limited market reaction in the UK money mkts so far. Meanwhile, the UK rate outlook remains a Sterling bear, but this is hardly news now.

Audrey Childe-Freeman

UK Base Rates	Interest Rate Forecasts							
Bank of England Base Rates		Current Level	Next Move	Timing	Q108	Q208	Q308	Q408
	Bank of England	5.25%	-25bp	Q2-08	5.25%	5.00%	4.75%	4.50%
	European Central Bank	4.00%	-25bp	Q408	4.00%	4.00%	4.00%	3.75%
	Federal Reserve	3.00%	-50bp	Mar-08	2.50%	2.50%	2.50%	2.50%