Report

Audit Committee

Part 1

Date: 28 October 2019

Item no: 6

Subject Report on Treasury Management for the period to 30 September 2019

Purpose This report is to inform the Audit Committee of treasury activities undertaken during the period to 30 September 2019 and confirms that all treasury and prudential indicators have been adhered to in the first half of the financial year.

Author Assistant Head of Finance

Ward General

Summary During the first half of the financial year, the Council continued to be both a short-term investor of cash and borrower to manage day-to-day cash flows. Current forecasts indicate that in the future, temporary borrowing will continue to be required to fund normal day to day cash flow activities. No additional temporary borrowing was required in the first half of the year, however there has been a small amount of long-term borrowing taken at zero interest for a specific project.

All borrowing and investments undertaken during the first half of the year was expected and within the Council's agreed limits

Proposal **To note the report on treasury management activities for the period to 30 September 2019 and provide comments to Council.**

Action by Head of Finance

Timetable Immediate

This report was prepared after consultation with:

- Treasury Advisors
- Head of Finance

Please list here those officers and members you have consulted on this report.

Signed

Background

1. The Council's Treasury Management Strategy and Prudential Indicators were approved by Council in February 2019 alongside the Capital Strategy and the Medium Term Financial Plan and the 2019/20 Budget.

2. The Treasury Management Strategy for 2019/20 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year. The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.

3. The 2017 Prudential Code includes a requirement for local authorities to produce and approve provide a Capital Strategy, 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 26th February 2019.

4. This report presents the following information.

   - details of capital financing, borrowing, debt rescheduling and investment transactions
   - reports on the risk implications of treasury decisions and transactions
   - details the half year monitoring position on treasury management transactions in 2019/2020
   - confirms compliance with treasury limits set and Prudential code

5. Whilst the Council has significant long term borrowing requirements, the Council's capacity for further in internal borrowing has reached capacity, and in the latter half of 2019/20 the Council is expected to undertaken external borrowing both for the refinancing of maturing loans and to fund the existing capital programme; it will remain as much 'internally borrowed' as is possible and increase actual external borrowing only when needed to manage its cash requirements.

6. Although this report looks at treasury management activities to 30th September 2019, on 9th October HM Treasury announced a change to the margin of 1% which was applied to PWLB interest rates, increasing the cost of borrowing immediately from that point forward. This was an unexpected increase, and was not anticipated across local government.

7.

8. Given the recent rise in PWLB interest rates the authority will discuss with treasury advisors on whether the strategy of not undertaking early long-term borrowing is still applicable, this will be updated in the treasury management strategy to be approved for 2020/21.

9. As shown in Table 2 in Appendix B, during the first half of the year the amount of borrowing has reduced by £42m to £150.8m. This is mainly due to repayment of the stock issue which matured on the 10th April 2019. The Council took out a loan to do this but did this before 31st March and therefore this increase in loans taken out was reported in the previous half-year / financial year. As this loan was taken a few weeks earlier than needed, it was temporarily invested and then used to repay the Bond and therefore, as shown in the same table, there is a corresponding reduction in investments as this was done. In essence, we have simply re-financed the Bond with another loan of the same value and in pursuing an internally borrowed borrowing strategy, is as expected.

10. A small amount of long-term borrowing was taken out in the first half of the financial year amounting to £1.5m. This was in relation to interest free Welsh Government and Salix loans linked to specific projects. It is anticipated that the Council will need to undertake additional borrowing on a short term basis for the remainder of the year in order to cover normal day to day cash flow activity. With current estimates there is the potential that a small amount of additional long-term borrowing could be required in this financial year.

11. Appendix B summarises the Council's debt position as at 30 September 2019. The changes in debt outstanding relate to the raising and repaying of temporary loans and the reduction in borrowing is in relation to the £40m stock issue.

12. In regards to LOBOs, no loans were called during the period. All £30m outstanding is subject to potential change of interest rates by the lender (which would automatically trigger a right to the Council to repay these loans) prior to the end of this financial year. Should a change of interest rate be requested, then it will be considered in detail and a decision on how we proceed will be made in conjunction with our treasury advisors.

INVESTMENTS ACTIVITY / POSITION

13. Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority will look to diversify into more secure and/or higher yielding asset classes in the future. This is especially the case for the estimated £10 million that is available for longer-term investment. All of the Authority's surplus cash is currently invested in short-term unsecured bank deposits and local authorities.

14. As per the Council's investment strategies, the Council had made investments to assist local public services, including making loans to businesses to promote economic growth.

15. The Council's strategy of being a short-term investor has been maintained, and in line with our strategy, this will be allowed to reduce over the next year or so. There is now a long term reduction now a long term reduction in the Council's internally borrowed capacity. As at 30 September 2019, there was a £17.0m balance of short-term investments.

16. All investments are currently placed on a temporary basis and are placed in high security institutions, in line with our other strategy in this area, dealing with our investing priorities of (i) security (ii) liquidity and (iii) yield, in that order. At the 30 September 2019, £8m was placed with various local authorities and £9m with banks and building societies.

17. January 2018 saw the implementation in the UK of the second Markets in Financial Instruments Directive (MiFID II), where firms will be obliged to treat all local authorities as retail clients unless they opt up to professional client status and meet certain criteria. These criteria include holding a minimum of £10m investment balance and employing knowledgeable and experienced staff to carry out investment transactions. It is anticipated that our investment balances will remain well above the minimum £10m for the remainder of the financial year.

18. The Council does not hold any long-term (more than 364 days) investments as at 30 September 2019. However, as stated above the Authority is now aiming to diversity into higher yielding, long term financial instruments in the second half of 2019/20, this is further detailed in the report being presented to Audit Committee on investments to pooled funds.

OTHER MID YEAR TREASURY MATTERS

Economic background and Counter Party Update

19. Appendix A outlines the underlying economic environment during the first half of the financial year, as provided by the Council's Treasury Management Advisors Arlingclose.

20. The Council does not currently have any long-term investments, and the investments that it currently undertakes are mainly with other local authorities which are deemed very secure, therefore the risk is currently limited. There were no significant changes in credit ratings advised in the first half of the financial year that had implications for the approved lending list. The long term rating of Santander UK, the Council's bankers, remains at A above the Council's minimum level of A-.

Compliance with Prudential Indicators approved by Council

19. The Authority measures and manages its exposures to treasury management risks using various indicators which can be found in Appendix B. The Authority has complied with the Prudential Indicators for 2019/20, set in March 2019 as part of the Treasury Management Strategy. Details of treasury-related Prudential Indicators can be found in Appendix B.

Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Investment counterparty not repaying investments	High but depending on investment value	Low	The Council only invests with Institutions with very high credit scores. It employs advisors to monitor money market movements and changes to credit scores and acts immediately should things change adversely. The lower levels of funds available for investment will also alleviate the risk.	Members, Head of Finance, Treasury staff, based on advice from treasury advisors
Interest Rates moving adversely against expectations	Low	Low	Despite recent increase in the bank rate to 0.75%, future expectations for higher short term rates are subdued. The Treasury strategy approved allows for the use of short term borrowing once investment funds are exhausted to take advantage of these low rates. In October 2019 HM treasury raised the margin by 1% which had an impact on the PWLB rates, making PWLB a more expensive from of borrowing. Any further increases in HM Treasury is unlikely in the near future.	Head of Finance, Treasury staff, treasury advisors

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

It is the Council's policy to ensure that the security of the capital sums invested is fully recognised and has absolute priority. The Council follows the advice of the Welsh Governments that any investment decisions take account of security, liquidity and yield in that order.

Options Available and considered

The Prudential Code and statute requires that, during and at the end of each financial year, reports on these matters are presented to Council for approval. Thus the only option available is consider the report and provide comments to the Council.

Preferred Option and Why

Note the contents of the report and provide comments to the Council.

Comments of Chief Financial Officer

Decisions made on treasury matters will be made with a view the Treasury Management Strategy, Treasury Advisors and Prudential Indicators.

Comments of Monitoring Officer

There are no legal implications. The in-year and annual treasury management report is consistent with relevant Chartered Institute of Public Finance and Accountancy Guidance, Treasury Management principles and the Council's investment strategy.

Comments of Head of People and Business Change

There are no direct HR implications associated with the report.

The Council is required through the Prudential Code to report on treasury management activities during and at the end of each financial year. The Well-being of Future Generations Act requires public bodies to balance short-term needs with the needs to safeguard the ability to meet long-term needs. As stated in this report, the Council continues to be both a short-term investor of cash and borrower to manage day-to-day cash flows but current forecasts indicate that in future temporary borrowing will continue to be required to fund normal day to day cash flow activities. All borrowing and investments undertaken during the first half of the year was expected and within the Council's agreed limits. The matters within this report fit in with the well-being goal of a Prosperous Wales.

Comments of Cabinet Member

N/A.

Local issues

N/A

Scrutiny Committees

N/A

Equalities Impact Assessment and the Equalities Act 2010

The Equality Act 2010 contains a Public Sector Equality Duty which came into force on 06 April 2011. The Act identifies a number of 'protected characteristics', namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users. In exercising its functions, the Council must have due regard to the need to: eliminate unlawful discrimination, harassment, victimisation and other conduct that is prohibited by the Act; advance equality of opportunity between persons who share a protected characteristic and those who do not; and foster good relations between persons who share a protected characteristic and those who do not. The Act is not overly prescriptive about the approach a public authority should take to ensure due regard, although it does set out that due regard to advancing equality involves: removing or minimising disadvantages suffered by people due to their protected characteristics; taking steps to meet the needs of people from protected groups where these differ from the need of other people; and encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

Children and Families (Wales) Measure

N/A

Wellbeing of Future Generations (Wales) Act 2015
This report is a backwards looking report of the treasury management activities of the Council. It shows that we followed the treasury management strategy and the compliance with prudential code and treasury management indicators. This links into the long-term objectives of the authorities and ensures that the councils activities are carried out in an affordable, prudent and sustainable manner.

Crime and Disorder Act 1998
Section 17(1) of the Crime and Disorder Act 1998 imposes a duty on the Local Authority to exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area.

Consultation
N/A

Background Papers
Treasury Management Strategy report to Audit Committee January 2019.
Report to Council February 2019: Capital Strategy and Treasury Strategy

Dated: 04 November 2019

APPENDIX A

Economic background: UK Consumer Price Inflation (CPIH) fell to 1.7% year/year in August 2019 from 2.0% in July, weaker than the consensus forecast of 1.9% and below the Bank of England's target. The most recent labour market data for the three months to July 2019 showed the unemployment rate edged back down to 3.8% while the employment rate remained at 76.1%, the joint highest since records began in 1971. Nominal annual wage growth measured by the 3-month average excluding bonuses was 3.8% and 4.0% including bonuses. Adjusting for inflation, real wages were up 1.9% excluding bonuses and 2.1% including.

The Quarterly National Accounts for Q2 GDP confirmed the UK economy contracted by 0.2% following the 0.5% gain in Q1 which was distorted by stockpiling ahead of Brexit. Only the services sector registered an increase in growth, a very modest 0.1%, with both production and construction falling and the former registering its largest drop since Q4 2012. Business investment fell by 0.4% (revised from -0.5% in the first estimate) as Brexit uncertainties impacted on business planning and decision-making.

Politics, both home and abroad, continued to be a big driver of financial markets over the last quarter. Boris Johnson won the Conservative Party leadership contest and has committed to leaving the EU on 31st October regardless of whether a deal is reached with the EU. Mr Johnson prorogued Parliament which led some MPs to put forward a bill requiring him to seek a Brexit extension if no deal is in place by 19th October. The move was successful and, having been approved by the House of Lords, was passed into law. The Supreme Court subsequently ruled Mr Johnson's suspension of Parliament unlawful.

Tensions continued between the US and China with no trade agreement in sight and both countries imposing further tariffs on each other's goods. The US Federal Reserve cut its target Federal Funds rates by 0.25% in September to a range of 1.75% - 2%, a pre-emptive move to maintain economic growth amid escalating concerns over the trade war and a weaker economic environment leading to more pronounced global slowdown. The euro area Purchasing Manager Indices (PMIs) pointed to a deepening slowdown in the Eurozone. These elevated concerns have caused key government yield curves to invert, something seen by many commentators as a predictor of a global recession. Market expectations are for further interest rate cuts from the Fed and in September the European Central Bank reduced its deposit rate to -0.5% and announced the recommencement of quantitative easing from 1st November.

The Bank of England maintained Bank Rate at 0.75% and in its August Inflation Report noted the deterioration in global activity and sentiment and confirmed that monetary policy decisions related to Brexit could be in either direction depending on whether or not a deal is ultimately reached by 31st October.

Financial markets: After rallying early in 2019, financial markets have been adopting a more risk-off approach in the following period as equities saw greater volatility and bonds rallied (prices up, yields down) in a flight to quality and anticipation of more monetary stimulus from central banks. The Dow Jones, FTSE 100 and FTSE 250 are broadly back at the same levels seen in March/April.

Gilt yields remained volatile over the period on the back of ongoing economic and political uncertainty. From a yield of 0.63% at the end of June, the 5-year benchmark gilt yield fell to 0.32% by the end of September. There were falls in the 10-year and 20-year gilts over the same period, with the former dropping from 0.83% to 0.55% and the latter falling from 1.35% to 0.88%. 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.65%, 0.75% and 1.00% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth remains a global risk. The US yield curve remains inverted with 10-year Treasury yields lower than US 3-month bills. History has shown that a recession hasn't been far behind a yield curve inversion. Following the sale of 10-year Bunds at -0.24% in June, yields on German government securities continue to remain negative in the secondary market with 2 and 5-year securities currently both trading around -0.77%.

Credit background: Credit Default Swap (CDS) spreads rose and then fell again during the quarter, continuing to remain low in historical terms. After rising to almost 120bps in May, the spread on non-ringfenced bank NatWest Markets plc fell back to around 80bps by the end of September, while for the ringfenced entity, National Westminster Bank plc, the spread remained around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 34 and 76bps at the end of the period.

There were minimal credit rating changes during the period. Moody's upgraded The Co-operative Bank's long-term rating to B3 and Fitch upgraded Clydesdale Bank and Virgin Money to A-.

Our treasury advisor Arlingclose will henceforth provide ratings which are specific to wholesale deposits including certificates of deposit, rather than provide general issuer credit ratings. Non-preferred senior unsecured debt and senior bonds are at higher risk of bail-in than deposit products, either through contractual terms, national law, or resolution authorities' flexibility during bail-in. Arlingclose's creditworthiness advice will continue to include unsecured bank deposits and CDs but not senior unsecured bonds issued by commercial banks.

APPENDIX B

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

	31.3.19 Actual £m
General Fund CFR	280
Less: *Other debt liabilities	43
Borrowing CFR	**237**
Less: Usable reserves	(103)
Less: Working capital inc. investments	2.6
Net borrowing	**136.6**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

The treasury management position as at 30 September 2019 and the change over the period is show in table 2 below.

Table 2: Treasury Management Summary

	31.3.19 Balance £m	Movement £m	30.9.19 Balance £m	30.9.19 Rate %
Long-term borrowing	149.3	1.5	150.8	11.93
Short-term borrowing	43.5	(43.5)	-	-
Total borrowing	**192.8**	**(42.0)**	**150.8**	**3.66**
Long-term investments	-	-	-	-
Short-term investments	(10.3)	2.3	(8.0)	0.63
Cash and cash equivalents	(45.9)	36.9	(9.0)	0.53
Total investments	**(56.2)**	**39.2**	**(17.0)**	**0.58**
Net borrowing	**136.6**	**(2.8)**	**133.8**	**N/A**

The table above shows significant movement in both the borrowing and investment levels of the Council, however overall the NET borrowing position for the Council has decreased by £2.8m. Borrowing decreased by £42.0m in the year, this is mainly due to undertaking borrowing early in relation to the re-financing of the stock issue, which matured on the 10th April 2019.

This borrowing was placed in very short-term investments, therefore as at the 30th March 2019 was classed as cash and cash equivalents in the above table. Following the re-financing on 10th April, the investments reduced by £40m and the borrowing also reduced by £40m.

Excluding the £40m, short-term investments have increased by £0.8m and borrowing has decreased by £2m giving an overall decrease in net borrowing of £2.8m.

Borrowing Strategy during the half year

At 30th September 2019 the Authority held £150.8m of loans, (a decrease of £2m on 31st March 2019, excluding the £40m borrowing for the re-financing of the stock issue), as part of its strategy for funding previous years' capital programmes. The 30th September 2019 borrowing position is show in table 3 below.

Table 3: Borrowing Position

	31.3.18 Balance £m	Net Movement £m	31.3.19 Balance £m	31.3.19 Weighted Average Rate %	31.3.19 Weighted Average Maturity (years)
Public Works Loan Board	107.9	(0.8)	107.1	3.7	20.1
Banks (LOBO)	30.6	(0.6)	30.0	3.8	34.7
Stock Issue	40.0	(40.0)	-	-	-
Banks (fixed-term)	5.0	-	5.0	3.8	58.4
Local Authority (short-term)	-	-	-	-	-
Other inc. WG loans	6.0	2.6	8.6	-	-
Accrued interest	3.3	(3.3)	-	-	-
Total borrowing	**192.8**	**(42.0)**	**150.8**	**3.7**	**23.7**

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, new borrowing was kept to a minimum of £1.5m. 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 2 above.

The "cost of carry" analysis performed by the Authority's treasury management advisor Arlingclose did not indicate any value in borrowing in advance for future years' planned expenditure and therefore none was taken.

The Authority continues to hold £30m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the first half of 2019/20.

Investment Activity

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half of 2019/20 the Authority's investment balance ranged between £17m and £69m due to timing differences between income and expenditure. The investment position during the half year is shown in table 4 below.

Table 4: Investment Position

	31.3.19 Balance £m	Movement £m	30.9.19 Balance £m	30.9.19 Weighted average rate %	30.9.19 Weighted average maturity Years
Banks & building societies (unsecured)	7.7	1.3	9.0	0.53	0
Government (incl. local authorities)	48.5	(40.5)	8.0	0.63	0.03
Total investments	**56.2**	**(39.2)**	**17.0**	**1.16**	**0.03**

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 investments before seeking the highest 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. However, we expect to begin to invest in long term financial instruments in the near future which is in line with the Treasury Management Strategy which was approved in February 2019

Compliance Report

The Head of Finance is pleased to report that all treasury management activities undertaken during the first half of 2019/20 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 5 below.

Table 5: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£10m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£2m per country
Registered providers and registered social landlords	£5m in total
Unsecured investments with building societies	£5m in total
Money market funds	£10m in total
Real estate investment trusts	£10m in total

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 6 below.

Table 6: Debt Limits

	H1 Maximum (£m)	30.9.19 Actual (£m)	2019/20 Operational Boundary (£m)	2019/20 Authorised Limit (£m)	Complied
Borrowing	193	151	220	230	✓
PFI & finance leases	43	43	44	44	✓
Total debt	**205**	**194**	**264**	**274**	✓

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.

Treasury Management Indicators

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

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed was:

	30.9.19 Actual	2019/20 Limit	Complied
Upper limit on fixed interest rate exposure	100%	100%	✓
Upper limit on variable interest rate exposure	0	50%	✓

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

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 fixed rate borrowing were:

	30.9.19 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	0%	70%	0%	✓
12 months and within 24 months	1%	60%	0%	✓
24 months and within 5 years	7%	60%	0%	✓
5 years and within 10 years	20%	50%	0%	✓
10 years and within 20 years	21%	30%	0%	✓
20 years and within 30 years	15%	20%	0%	✓
30 years and within 40 years	20%	20%	0%	✓
40 years and within 50 years	9%	20%	0%	✓
50 years and above	7%	20%	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 364 days: 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:

	2019/20	2020/21	2021/22
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	10	10	10
Complied	✓	✓	✓

Outlook for the remainder of 2019/20

The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased dramatically.

There appears no near-term resolution to the trade dispute between China and the US, a dispute that the US appears comfortable exacerbating further. With the 2020 presidential election a year away, Donald Trump is unlikely to change his stance.

Parliament appears to have frustrated UK Prime Minister Boris Johnson's desire to exit the EU on 31st October. The probability of a no-deal EU exit in the immediate term has decreased, although a no-deal Brexit cannot be entirely ruled out for 2019 and the risk of this event remains for 2020. The risk of a general election in the near term has, however, increased.

Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

Our treasury advisor Arlingclose expects Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy. Arlingclose also expects gilt yields to remain at low levels for the foreseeable future and judge the risks to be weighted to the downside and that volatility will continue to offer longer-term borrowing opportunities

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Cas	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75