

## UK: Bank of England maintains status quo

- The Bank of England (BoE) kept its policy rate unchanged at 0.5% and the quantum of Asset Purchase Facility (APF) was also retained at GBP 375 bn.
- The Press release states that *"...the committee reached its decisions in the context of the monetary policy forward guidance announced alongside the publication of the August 2013 Inflation Report..."*.
- The minutes of this Monetary Policy Committee (MPC) meeting will be released on Oct 23, 2013. The last meeting's minutes showed that all nine members voted to keep Asset Purchase Facility (APF) and interest rate unchanged.
- We continue to believe that the first hike in policy rate could come in 2017, as UK unemployment rate is unlikely to fall to 7.0% before then (Please refer to our report titled *"UK: Unemployment rate to fall to 7.0% in mid-2017?"*, dated August 26, 2013).

## The Key Macro-Economic Highlights

- UK real GDP grew 0.7% QoQ (1.3% YoY) in Q2 2013, as against 0.4% (revised upward from previously estimated 0.3%) in Q1 2013. On the other hand, GDP growth for the full-year 2012 was revised downwards from earlier estimated 0.2% to 0.1%.
- After posting a multi-year high in August 2013, Purchasing Managers' Index (PMI) data for the UK manufacturing sector eased slightly in September 2013. This is also true for services and construction indices, due to which the composite PMI index fell from an all-time high of 60.7 in August to 60.4 last month.
- Although real retail sales (including automotive fuel) declined 0.9% MoM in August 2013 and annual pace of growth was also slower than in July 2013 (+1.2% MoM), retail sales grew 2.5% YoY in July-August 2013, as against 1.7% YoY in Q2 2013.
- The housing market continues its recovery, as house prices in September increased at the fastest annual pace in the past three years. According to Nationwide, UK home prices grew 5.0% YoY (0.9% MoM) in September, which was in line with the 6.2% YoY growth shown by Halifax data.
- Consumer price Index (CPI) grew 2.7% YoY in August 2013, easing for the second consecutive month, from its recent peak of 2.9% in June 2013. Core inflation, however, stayed at 2.0% YoY in August 2013, as against 2.3% two months ago. The deceleration in inflation was primarily due to lower contribution by 'transport' and 'clothing & footwear' sectors, while a rise in 'furniture & household services' partially offset the deceleration. We expect inflation to stay high at 2.8% in September, before a favourable base effect kicks in.
- A couple of weak data points, nevertheless, led to a fall in GBP yesterday, leading it to fall below 1.60 for the first time in the past 16 trading sessions. While UK's industrial production declined 1.4% YoY in August 2013, primarily driven by a sharp contraction in mining activities, UK's merchandise trade deficit stood at GBP 9.6 bn in August 2013, marginally lower than July's GBP 9.9 bn deficit, but higher than the consensus deficit of GBP 8.9 bn.
- In terms of the impact on GBPUSD cross, GBP didn't move much on BoE's decision, and continues to trade at close to 1.5950.

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