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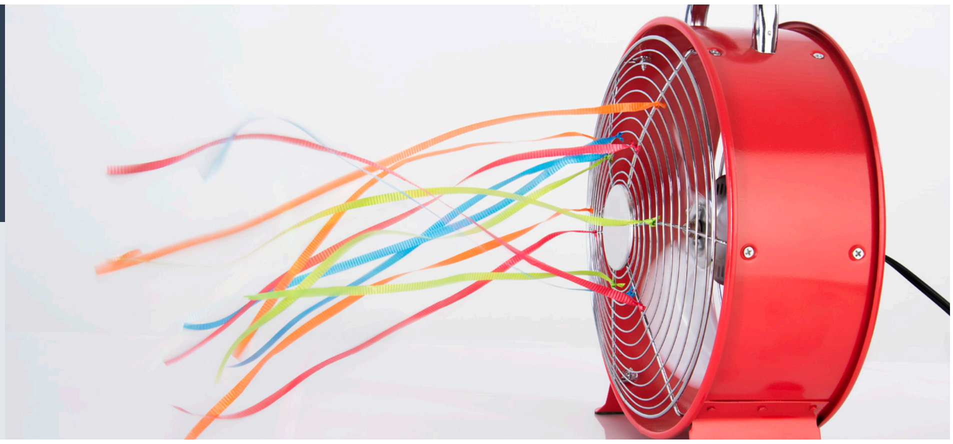
# News in Review

10 August 2022

*"It's our job to get inflation back down to 2%, so we have raised interest rates"*



After five successive smaller rises, last week saw the Bank of England's Monetary Policy Committee (MPC) up the ante and increase Bank Rate by 0.5 percentage points, the biggest rate hike since the MPC was established in 1997.

At 1.75%, Bank Rate is now higher than at any point since December 2008. The 0.5% rise will translate into an extra monthly cost for homeowners on a tracker or variable rate mortgage, while those with credit cards, bank loans and car loans will also see higher charges on their debt. In announcing the rise, the Bank of England (BoE) acknowledged the hardships people are facing but reaffirmed its objective, *"It's our job to make sure that inflation returns to our 2% target, and that is what we will do"*.

## Global trend

Like other central banks around the world, the BoE is raising rates in response to soaring inflation. When announcing the rate rise, the MPC warned that inflation could hit 13% next year, partly due to the rising energy price cap. The UK's inflationary pressures are also part of a global trend, prompted largely by Russia's restriction of gas supplies to Europe. Since May, wholesale gas prices have almost doubled, while uncertainty still abounds over the possibility of future Russian curbs.

## Oil production

One group with the power to ease some of the price pains is the Organization of the Petroleum Exporting Countries (OPEC). Following pressure applied by US President Joe Biden and other Western leaders, the world's biggest oil producers agreed to a slight increase in production at a meeting of OPEC+ last Wednesday. The larger grouping of OPEC and its allies, which include Russia, pledged to increase supply by 100,000 barrels a day, equivalent to around 0.1% of global demand, starting from September. OPEC expects global oil demand to rise in 2023 but at a slower pace than in 2022.

## Energy price cap change

Ahead of the latest rise to the UK's energy price cap in October, regulator Ofgem announced new plans that will see household energy costs change every three months. Currently, the price cap updates every six months; moving to quarterly changes should allow price rises and falls to be passed onto customers more quickly. Ofgem claims this will reduce price shocks, while Greg Hands, the Minister for Energy, noted that, *"If energy prices were to start to fall people would see those benefits more quickly."*

On Tuesday, however, consultancy Cornwall Insight made an upward revision to its forecast for January 2023 in response to the plans. It now expects energy bills to hit £4,266 a year for a typical household by the start of next year.

## Car sales down ...

Last Thursday, the Society of Motor Manufacturers and Traders (SMMT) announced that sales of new cars in the UK fell by nearly 9% in July, leading the body to downgrade its outlook for the full year. As global supply chain issues continue to frustrate order fulfilment, the revised forecast of 1.6 million new car registrations would represent a 2.8% year-on-year decline. The SMMT also pointed to COVID lockdowns in key manufacturing and logistics centres in China, as well as disruption from the war in Ukraine, to explain the falling sales. In the face of all these difficulties, the body noted that the industry was facing its *'most challenging year for three decades'*.

## ... but retail sales heat up

According to the British Retail Consortium, retail sales in the UK increased by 1.6% on a like-for-like basis in July 2022 from a year ago, rising for the first time in five months. Demand for items such as electric fans, summer clothing and picnic food during the record hot weather helped retailers rebound last month.

## Markets

London stocks were mixed at close on Tuesday with investors awaiting the latest key US inflation data which is due for release on Wednesday. The FTSE 100 ended the session up 0.08% at 7,488.15, while the FTSE 250 was down 1.02% at 19,912.40. Wall Street stocks closed weaker on Tuesday – the Dow Jones finished down 0.18% at 32,774.41 and the Nasdaq Composite lost 1.19% to end the session at 12,493.93.

## Here to help

Financial advice is key, so please do not hesitate to get in contact with any questions or concerns you may have.

***The value of investments can go down as well as up and you may not get back the full amount you invested.***
***The past is not a guide to future performance and past performance may not necessarily be repeated.***
***All details are correct at time of writing (10 August 2022)***