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Trying times | Despite the BoE's move, some analysts believe the banks' reluctance to pass on the cuts will mean little gain for homeowners

UK

## Bank of England cuts rates to 1%

The Bank of England's (BoE) decision to cut interest rates by 0.5% down to 1%, the lowest in 315 years, is being viewed as a sign that the British housing market and wider economy is not expected to recover anytime soon. "The decision to cut base rates again will be welcomed by homeowners," said James Thomas, head of residential investment at Jones Lang LaSalle. "The market remains extremely weak, transaction volumes are at record lows and house prices continue to fall."

### Liquidity still a concern

Portfolio managers, the Young Group, said that although this will help those on a tracker mortgage, some 65% of Brits are not and this will have no impact on the current decline in the housing market. "The economy is crying out for liquidity but successive cuts in base rate have not made an appreciable impact on lenders' willingness to provide credit," said CEO

### Sterling predictions for 2009

Time (months)	BoE Rate	GBP/USD	GBP/EUR	EUR/USD
1	1.00%	1.44	1.11	1.30
3	1.00%	1.48	1.15	1.29
6	1.00%	1.65	1.23	1.34
12	1.00%	1.78	1.28	1.39

Source: World First

Neil Young. "Whether purchasers and homeowners are looking for mortgages or businesses are seeking funding, lenders are still placing restrictive hurdles in their path."

Nick Hopkinson, director of Property Portfolio Rescue which buys properties from troubled developers across Europe, agreed and added: "Today's rate cut will have no effect on the ability of people to borrow money in the short term – the cost of money is not the issue, it's the lack of available finance. Homebuyers and businesses are finding it impossible to get finance

at the levels needed right now."

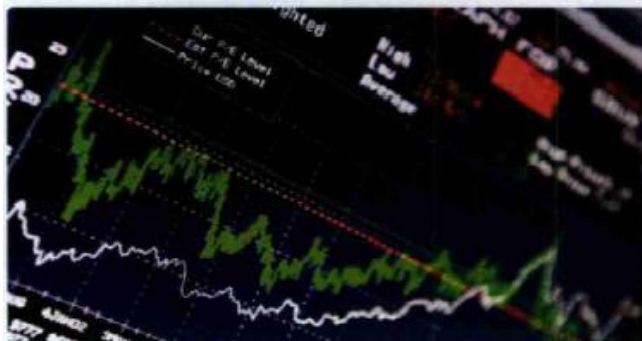
### Pound predicted to strengthen

Shortly after the BoE cut its rates, the European Central Bank (ECB) held its interest rates at 2%, with suggestions that it may lower this at the start of Q2 2009 if needed.

Currency specialist World First said that the Pound strengthened after the announcements and believes that it will continue to do so in 2009.

"The reason for the spike is due to investors and speculators moving into Sterling with the market rewarding the BoE for its proactive approach in cutting interest rates to combat the credit crunch in an attempt to loosen the recessionary grip on the country," said World First's chief economist Jeremy Cook.

"The interest rates in Europe will stay higher than the UK for the most part of 2009, we believe, as the ECB is hoping that its 'laissez-faire' attitude to the recession will be a better long-term solution than what they view as Anglo-Saxon panic by the US Federal Reserve and Bank of England."



Volatile | A weak Pound has forced many agents to create new schemes to generate sales