

## euro interest rates rise

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*Whilst the bank of england leaves rates at a record low, the european central bank strikes the trend that the uk will shortly follow.*

There you go then, the global interest rates log jam has been broken, as once again the european central bank takes the lead, down a path the bank of england will be forced to follow. We're not quite denmark (whose central bank governor once said that he has full independence to set national interest rates – for about 15 minutes after the ecb announce), but in a viscerally mobile and competitive market, the money follows the interest. At 0.5%, uk rates today are the lowest ever, but even mighty central bankers' ability to hold back the tide is limited; at some point the natural order of things must reassert itself. At the peak of the cycle before this extraordinary last period, uk rates were 5.75%, close to the historical norm of around 5%, and undoubtedly where we're headed, albeit over a time frame that will be as stretched as possible. The ecb's hike was inevitable, given its stance as the most hawkish, and its strength as the most independent, of central banks. An important factor in the timing was a strong signal to the fiscal side of the euro's equation. It is not the ecb's role to forever be banker of last resort to the weaker parts of the zone. The bank has skillfully used a necessary monetary adjustment to send a clear political message for much stronger economic governance. All this makes growth in the uk more challenging, as does rising inflation (now clearly unanchored, whatever the bank of england tell us), rising oil prices (the highest ever in sterling terms) and uncertainty in japan. Latest figures in greater manchester evidence the local effects: 35,000 businesses are now classified as high risk, up some 10% since march; the number of business deals has fallen over the year by a third; the local housing market continues to weaken; and the chamber of commerce's quarterly survey shows domestic sales and orders remain low. The upswing in interest rates, as delayed as it has been, brings a new edge to the gloom. If not a perfect storm, the clouds are certainly gathering.