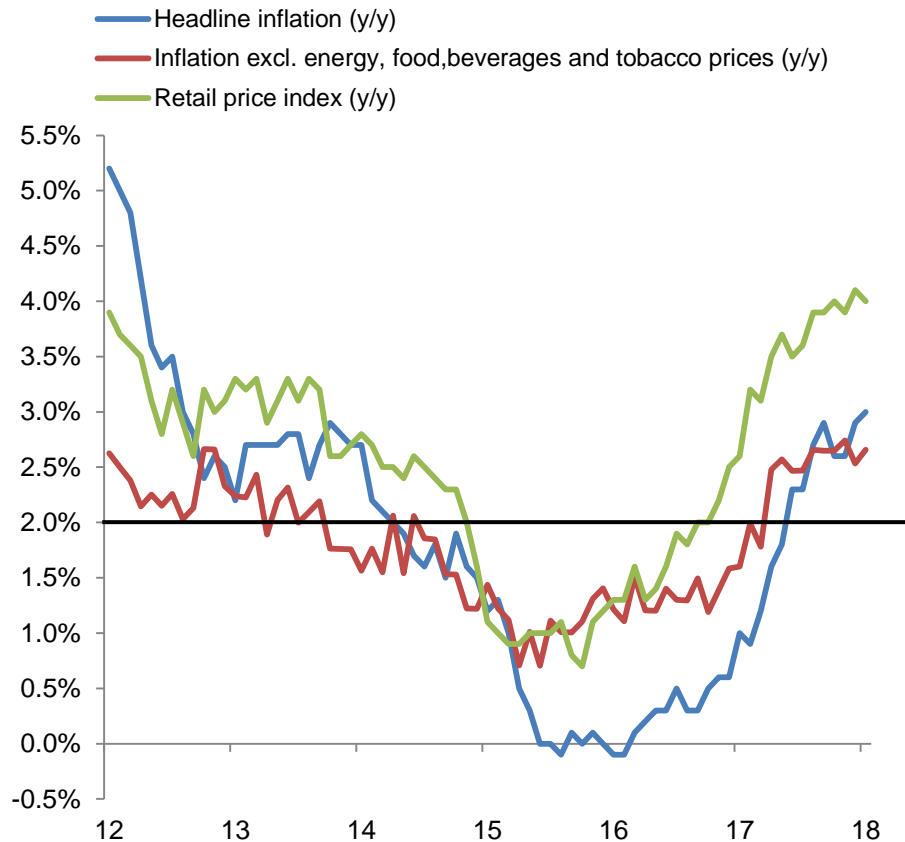


UK Elevated Price Pressures Support Two Rate Hikes in 2018

Headline and core consumer prices vs. retail prices



January core **inflation** surprised on the upside: +2.7% y/y from +2.5% in December. Headline inflation remained broadly stable at +3% y/y. We expect headline inflation to remain at a **high level** of +2.6% in 2018 as (i) wage growth would accelerate given higher labor market shortages, (ii) the sterling would depreciate, albeit moderately, (iii) commodity prices would continue to increase.

We expect the Bank of England to raise **interest rates** twice in 2018 (+50bp to 1%).