

# Rates and GDP now in synch?

In the past, rising interest rates in the UK have tended to be a signal of a sharp downturn in GDP. In fact, as Figure 1 shows, they have often moved in the opposite direction to GDP growth, amplifying the severity of the cycle and the size of the subsequent downturn. This time around, with interest rates 'in synch' with GDP, rising base rates are more likely to be a concurrent indicator of strong growth in consumer activity, given that the MPC is setting rates with a view to inflation in two years' time.

## A prediction

This suggests that September's interest rate rise will not lead to a rapid deterioration in consumer confidence or activity. In fact, if 6% marks the peak in this interest rate cycle then the MPC will have succeeded in smoothing out the UK economic cycle to a remarkable extent and consumer confidence in the economic outlook may well remain

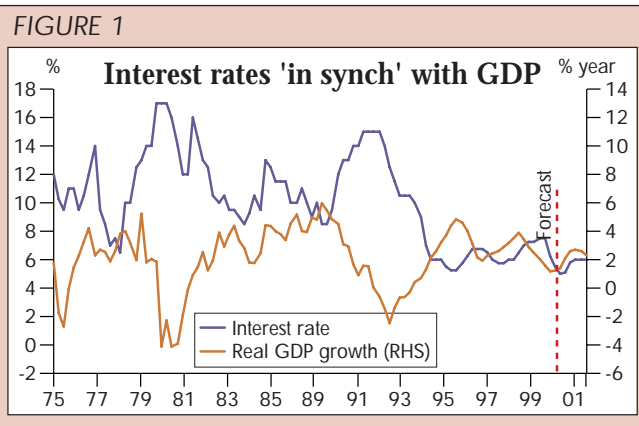
high. This could lead to a re-rating of UK equities, especially given the prospect of lower interest rates in the future assuming the UK joins the single currency. However, this is the future; the shorter-term outlook remains uncertain until evidence emerges that the peak in interest rates really is lower this time.

One clear impact that the pre-emptive rise has had – and further rises will add to – has been to eliminate any hope of sterling weakness. This will have a negative impact on the manufacturing sectors, however there is growing evidence that UK manufacturers are

learning to live with the current levels of exchange rates.

Previous periods of rising interest rates have seen defensive sectors outperform. We do not expect this round of interest rate rises to lead to a sharp slowdown in economic activity and a corresponding rush towards defensives. However, the combination of attractive valuations in the sector and market uncertainty over the next few months should boost defensive performance, especially if the US market begins to unwind its stretched valuation.

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## INTERNATIONAL EQUITIES

These are a selection of issues announced recently. The details, updated to the middle of last month, were supplied by IFR Securities Data, London and other sources.

Issuer	Amount raised (m)	Type of issue	No shares (m)	Offer price	Pricing date	Exchange listing	Fees (%)	Bookrunner
<b>BlackRock</b>	USD126	IPO	9	USD14	29 Sep/1999	New York		Merrill Lynch
<i>Comment: BlackRock is the asset management arm of PNC Bank.</i>								
<b>MG</b>	GBP60.41 GBP44.14	IPO	29.5 21.5	GBP2.05	19 Sep/99	London	4.00	Cazenove & Co
<i>Comment: MG is the metals trading arm of Metallgesellschaft.</i>								
<b>QXL.com Telecommunications</b>	GBP54.6	IPO	28	GBP1.95	7 Oct/1999	London NASDAQ		Credit Suisse First Boston
<i>Comment: On-line auction house. Internet company.</i>								
<b>Toyota</b>	JPY1447.65	S	45	JPY321728	Sep/1999	New York Tokyo	3.470	J Henry Schroder and Co Merrill Lynch Nomura Bank
<i>Comment: One of the world's big three automotive manufacturers. The issue is intended to increase its investor base overseas.</i>								
<b>Trintech Group</b>	EUR63.8	IPO	5.8	EUR11	22 Sep/1999	London Neuer Markt	6.6667	Deutsche Bank
<i>Comment: Electronic payment systems provider for the e-commerce sector. Proceeds will be used for product development and expansion of its sales and marketing. Future acquisitions are also foreseen.</i>								
P = primary; S = secondary; IPO = initial public offering; D = demerger.								