Keep an eye on your cash

The latest inflation figure has crept up again, but interest rates haven't followed.

Between December 2015 and January 2016, overall prices as measured by the Consumer Prices Index (CPI) fell by 0.8%. However, prices normally fall between Christmas and the New Year as the sales get under way and the festive travel price hikes are unwound. The latest turn of year drop was 0.1% smaller than that between 2014 and 2015, with the result that *annual* inflation nudged up by 0.1% to 0.3%, the highest since January 2015.

The low level of inflation prompted another of the regular letters between Mark Carney, Governor of the Bank of England, and the Chancellor explaining why the inflation target (2%±1%) had again been missed. Mr Carney gave the same main reasons as he had previously: "falls in commodity prices; the past appreciation of sterling; and, to a lesser degree, below-average growth of domestic wage costs".

The Bank's latest projection for inflation, published in February, is that it is unlikely to reach the 2% central target until around the end of *next* year, based on the current market forecasts of future interest rates. These in turn suggest that base rate - 0.5% since March 2009 - will not reach 1% until around the end of 2018. In his letter to George Osborne, Mr Carney even said that "were … downside risks to materialise" the Bank could "…cut Bank Rate further towards zero from its current level of 0.5%."

According to *Moneyfacts*, the average instant access account interest rate (excluding cash ISAs) is now 0.63%, the lowest since June 2014. In this environment it is more important than ever to review your cash holdings and make sure that you do not hold more on deposit than an adequate personal reserve. Too large a cash buffer can turn out to be a deadweight on your overall portfolio returns.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.