12th June 2015

Market Report

Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 9th July)
- ECB - Maintained at to 0.05% - (next decision 2nd July)

Bank and Building Societies

HSBC has announced that it is cutting 8,000 jobs in the UK in an attempt to reduce costs. The cuts will be in both the retail and investment banking operations, and amount to around just under 17% of its 48,000 UK employees. The bank has said the jobs would go by "natural attrition", with staff turnover currently around 3,000 annually. HSBC has also said that it will be rebranding the UK High Street branches, though they have yet to decide on a new name. Chief exec Stuart Gulliver said he wanted to ensure that customers made a distinction between HSBC's investment and retail banking operations, which it needs to do under new government rules to formally separate the two businesses. It is also expected that the number of branches will fall by about 100 from the current 1,057. HSBC also confirmed that it would make a decision on whether to move its headquarters out of the UK by the end of the year.

Housing / Mortgage Market

More detail from the bank Of England's latest figures have shown that gross mortgage advances fell in Q1 by 11.1% on Q4 2014, and by 3.2% on Q1 of last year. The latest Mortgage Lenders and Administrators Statistics, revealed that the number of fixed rate mortgages dropped sharply to 77.6% in Q1, down from 82.2% in Q4 2014. Although new mortgage commitments increased quarterly, from £46.3billion to £47.2billion, this stage of the mortgage application process dipped year-on-year by 3.5%. Gross advances on higher loan-to-value (LTV) mortgages also decreased in Q1, with loans over 90% LTV down by 0.4% over the quarter to 3.3%. Overall interest rates on gross advances also fell by 0.25% to 3.01% from 3.26% in the previous quarter, which marked the lowest interest rate on gross advances since the series began in 2007. The value of residential loans advanced to first-time buyers fell in Q1 to £8.9billion from £11.9billion in Q4, and down from £9.4billion in Q1 of 2014. Buy-to-let lending stayed buoyant however, with mortgages advanced up from £6.8billion in Q1 2014 to £7.6billion in Q1 2015, and unchanged from Q4.

UK

The Office for Budget Responsibility (OBR) has warned that further cuts in government spending will be needed beyond this parliament in order to bring the national debt under control. In their annual report, the OBR said that without further spending cuts or tax rises, the national debt would only increase. The report added that a permanent £20billion cut in annual public spending will be needed by 2020, to help bring national debt down to 40% of GDP by 2064. If this was achieved, it means it will have taken more than half a century to bring the national debt back to the same level it was before the 2008 financial crisis. Last year, public sector net debt was £1.48trillion, or 80% of GDP, against the £600billion, or 42% of GDP, in 2008. The OBR also warned that even a cut of this size (equal to 1.1% of GDP), wouldn't be sufficient to keep the national debt at 40% beyond 2064. The OBR has also queried whether the government will be able to maintain a surplus, saying that UK public sector borrowing would still be necessary by the mid 2030's due to the demands of an ageing population. "No-one can know with confidence how much spare capacity there is in the economy or what the sustainable growth rate ... will be looking forward," the OBR said. "Any rule needs to be defined in the knowledge that our estimates of these things may change." The OBR said the government's triple-lock on the state pension (state pension rises by the greater of inflation, average earnings, or 2.5%) had resulted in an additional £2.9billion cost to the government, seven times higher than the £0.4bn increase originally forecast in 2010. Ratings agency Moody's has also warned that the government will find it very difficult to achieve a budget surplus by 2018-19, and is likely to be still operating a deficit of between 1% and 2% of GDP by 2020. The chancellor is due to announce spending cuts to welfare and government departments totalling £30billion over two years in the Budget next month. The OBR has said that if the government only makes the cuts currently outlined, the national debt as a share of GDP would fall to 50% by the mid-2030's, however, they forecast debt to be 87% of GDP by the 2060's due to an ageing population, declining revenues from North Sea oil and gas, and the impact of student loans. A Treasury spokesperson responded: "Our deficit is less than half what it was, but [today's] report from the OBR clearly shows the hard work that needs to be done to fix the public finances and deliver economic security and prosperity for working people."

The CBI has cut its growth forecasts and warned of further risks to the economy posed by a possible "messy" end to the Greek crisis and uncertainty over the EU referendum. They now expect 2.4% GDP this year and 2.5% next year, which are down from February's forecast of 2.7% and 2.6% respectively, and cited weaker than expected growth in Q1 for the downgrade. The CBI described Q1's 0.3% growth as a "temporary blip" and said it now believed the UK economy was on a "firm footing". However, they say that a "still sluggish eurozone", renewed uncertainty over Greece's economic future, and the in/out referendum on the UK's EU membership, were all potential threats to the UK's recovery. The CBI also added that the continued weak productivity - which, as measured by output per hour worked, has been exceptionally weak since 2008 – was another possible threat to the economy. "While we are seeing a strong domestic picture, cracking the productivity conundrum would really help cement the recovery," said the CBI.

The ONS has said that construction output did not fall as much as previously estimated. Output in the construction industry fell 0.8% in April compared to March, reversing March's surprise 1.4% increase. New housing projects contributed to a 1.6% increase in all new work during the month. After revising its methodology for measuring construction, the ONS said output fell 0.2% in Q1, rather than 1.1% as previously thought, which may have an impact on Q1's GDP. Currently GDP for Q1 is 0.3%, but this could be revised to 0.4% growth, and with GDP of 3.1% in 2014 rather than 2.8%. The ONS said the upward revision incorporated late data and new seasonal adjustment parameters among other technical calculations.

The ONS has reported that the trade deficit narrowed to £1.2billion in April from £3.1billion in March. The £8.6billion deficit on goods was partially offset by an estimated surplus of £7.4billion on services. The ONS also said that in the quarter to April, exports were flat after 0.3% growth in Q1, but imports were up 2.1%, the same as in the three months to March. UK exporters have struggled in the face of weak demand in the eurozone. The deficit was less than economists had expected. "Monthly trade figures are notoriously volatile but today's significant improvement is nonetheless very welcome, but there is no room for any complacency," said the British Chambers of Commerce. "The longer-term trend still shows a worsening in the trade position in recent months. It is clear that we are not making enough, sustained, progress in closing the trade gap." The UK's trade deficit for 2014 widened to £34.8billion, the biggest gap since 2010.

Europe

IMF negotiators have walked out of the talks for Greece's next bail out funds, due to major differences remaining, saying that they were "well away from an agreement." The Greek government is seeking a cash-for-reform deal, to avoid defaulting on a €1.5billion debt repayment to the IMF, however the European Council president said there was no more time for gambling and the game would soon be over. The Greek Prime Minister held talks with EC head Jean-Claude Juncker but little progress was made. The EU and IMF are unhappy with the extent of economic reforms the Greek government is offering in exchange for the release of a final €7.2billion (£5.3billion) in bailout funds. The current deal runs out at the end of June. The IMF said there had been "no progress" in sorting the differences between the IMF and Greek negotiators, and both teams had packed up and left for home. They did add that "the IMF never leaves the table. We remain engaged - but the ball very much is in Greece's court right now." One of the major sticking points appears to be Mr Tsipras's demand for some debt relief for Greece, while EU leaders will not countenance writing off debts before Greece commits to reforms. The Greek PM Alexis Tsipras has warned that a failure to reach a deal on Greece's bailout by the end of June would be the beginning of the end for the eurozone.

US

Nothing this week

The Rest Of The World

China's exports fell for a third consecutive month in May, highlighting slowing demand in the country. Exports fell 2.5% from a year ago, and although the figure was above expectations, the slide in imports has sparked worries on the domestic end. Imports dropped 17.6% for the seventh month running. Economists are worried that the data shows the economy will struggle to meet the government's trade growth target even with the export rise. Domestic demand in China continues to be weak despite stimulus measures by the government and central bank to boost growth. The drop in imports led China's trade surplus to $59.5billion in May, up nearly 75% from April.

Japan's Q1 GDP has been revised sharply higher to 1% up from an initial estimate of 0.6%. It also grew 3.9% on an annualised basis, against the preliminary reading of 2.4%, and above forecasts of 2.7% growth. In the initial estimate, business spending was up just 0.4% from the previous quarter, however, the revised reading was 2.7% higher, compared to forecasts of 2.3%.

The revised figures make growth in Q1 the best for Japan in two years. The data will boost hopes of a continuing recovery from the recession that the country fell into last year and will be very welcome news for the government and central bank, who have both been trying to stimulate growth. However, some economists are not convinced that Japan is on track for a better outlook, with Q2 GDP expectations slowing, whilst Japan's current account, a broad measure of trade, in April fell below expectations despite hitting a surplus for the 10th consecutive month.

UK Swap Rates

Markets, Swaps. Libor, Gold, Sterling

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Thurs 11th	1.03	(-0.01)	1.28	(-0.01)	1.64	(-0.05)	2.14	(-0.07)	2.40	(-0.07)
Wed 10th	1.04	(+0.01)	1.29	(-0.02)	1.69	(same)	2.21	(+0.01)	2.47	(+0.02)
Tues 9th	1.03	(+0.03)	1.31	(+0.06)	1.69	(+0.06)	2.20	(+0.07)	2.45	(+0.07)
Mon 8th	1.01	(-0.01)	1.25	(-0.02)	1.63	(-0.03)	2.13	(-0.03)	2.38	(-0.03)
Fri 5th	1.02	(same)	1.27	(+0.02)	1.66	(+0.05)	2.16	(+0.07)	2.41	(+0.06)
Thurs 4th	1.02	(-0.01)	1.25	(-0.03)	1.61	(-0.07)	2.09	(-0.09)	2.35	(-0.08)
Wed 3rd	1.03	(+0.03)	1.28	(+0.04)	1.68	(+0.09)	2.18	(+0.14)	2.43	(+0.15)
Tues 2nd	1.00	(+0.01)	1.24	(+0.03)	1.59	(+0.04)	2.04	(+0.08)	2.28	(+0.07)
Mon 1st	0.99	(+0.01)	1.21	(+0.02)	1.55	(+0.04)	1.96	(+0.05)	2.21	(+0.05)
Fri 15th	0.98	(-0.01)	1.19	(-0.02)	1.51	(-0.02)	1.91	(-0.02)	2.16	(-0.03)

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 11th	0.50	(-0.01)	0.57	(same)	0.72	(+0.01)	1.01	(+0.01)
Wed 10th	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)
Tues 9th	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)
Mon 8th	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)
Fri 5th	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)
Thurs 4th	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)
Wed 3rd	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)
Tues 2nd	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)
Mon 1st	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)
Fri 29th	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)

Financial Markets – 5th June – 13th June

Index	05/06/2015	This Week	% Change
FTSE 100	6,805.92	6,806.80	+0.01%
Dax	11,206.65	11,270.09	+0.57%
CAC 40	4,920.60	4,945.74	+0.51%

Index	05/06/2015	This Week	% Change
Dow Jones	17,905.58	18,309.37	+2.26%
S&P 500	2,095.84	2,108.86	+0.62%
Nikkei	20,460.90	20,407.08	-0.26%
Hang Seng	27.260.16	27,280.54	+0.07%
Shanghai Composite	5,023.10	5,166.35	+2.85%
Sydney	5,506.50	5,552.10	+0.83%

Gold

	Price	Change	%
Forex Gold Index $/oz	1178.50	-2.60	-0.22

Gold is measured and sold in troy ounces. One troy ounce equals 31.1035 grams or 480 grains. One troy ounce is equal to 1.09711 avoirdupois ounce - widely used to measure weights in the US and UK.

Pound vs US Dollar and Pound vs Euro

Sterling v Euro

	1buys	Change	%	52 Wk-h	52 Wk-l
Euro	1.38600	-0.00610	-0.44	1.40430	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.54860	+0.01630	+1.06	1.71520	1.44550