13th November 2015

Market Report

Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 10th December)
- ECB - Maintained at to 0.05% - (next decision 4th December)

The Bank of England's chief economist, Andy Haldane, has warned that the UK's "economic aircraft appears to be losing speed on the runway", adding that any rate rise would "increase unnecessarily the chances of the economy falling below critical velocity". Mr Haldane is known to be an arch-dove when it comes to raising interest rates. His latest comments come after the first increase in the bank is looking likely to be the latter part of 2016 or even into 2017, following the Bank of England's last inflation report. Mr Haldane also indicated that the next rate move could equally be a cut rather than a rise. "Now more than ever in the UK, policy needs to be poised to move off either foot depending on which way the data break," he said. He also added that because wage growth could be weaker than currently expected, inflation may undershoot the Bank's November predictions, when it estimated that inflation would rise above its 2% target in two years. The CPI is currently 0.1%. "Against that backdrop, my view is that the case for raising interest rates is still some way from being made," Mr Haldane said. "Whatever the reason, the economic aircraft appears to be losing speed on the runway. That is an awkward, indeed risky, time to be contemplating take-off. Meanwhile, inflationary trends do not at present give me sufficient confidence that inflation will be back at target, even two years hence." Mr Haldane also said the housing market was "broken," with "a chronic and accumulated imbalance between demand and supply, and it is that which is sending skyward - and has sent skyward - house prices."

Bank and Building Societies

The government has sold £13billion of tax payer owned Northern Rock mortgages, via UK Asset Resolution (UKAR) to US investment firm Cerberus. The mortgages are being sold for £280million above their book value, which means the government has now sold more than 85% of Northern Rock’s assets. The Chancellor said: "We are now clear that taxpayers will get back more money from Northern Rock than they were forced to put in during the financial crisis." TSB has also announced that it will buy £3.3billion of the former Northern Rock mortgages and loans from Cerberus, which will see 34,000 borrowers added to its lending book. Borrowers with former Northern Rock mortgages don’t need to do anything as there will be no changes to terms and conditions. However, the vast majority of former Northern Rock borrowers haven’t been able to switch to a better deal because lenders have not been keen to take them on, and many (probably most) are on the standard variable rate of 4.79%.

Housing / Mortgage Market

The RICS has said that property will continue to become "even more unaffordable" over the next five years creating a critical need for a house building programme. They say that the lack of supply will mean that property prices and the cost of renting a home will continue to rise. Their latest survey showed that prices had been on the up for the last three months in all parts of the UK, however the number of homes coming onto the market has been falling every month since February. "The legacy of the drop in new build following the onset of the global financial crisis is now really hitting home, with both the sales and letting markets continuing to show demand outstripping supply on a month by month basis," said RICS’s chief economist. "If the five-year projections from members regarding the outlook for both prices and rents is anything to go by, property is set to become even more unaffordable going forward making the government's focus of boosting the delivery of new homes absolutely critical." The survey also showed demand outstripping supply in many parts of the UK, but surprisingly the fastest increase wasn’t in London. East Anglia has consistently seen the fastest pace of increase in each of the last three months.

The FCA has urged lenders to develop better products for older borrowers. Lending into retirement has become one of the biggest issues in the mortgage market since the arrival of the FCA’s MMR, which led to many lenders reducing their maximum age limits, therefore making it more difficult for borrowers to get a mortgage if the loan extends into their planned retirement. With around a third of the population will be aged 60 and over within the next 25 years, an increase from the 23% today, which means the problem is only going to get worse, unless lenders decided to change their stance. The FCA’s director of supervision for the retail and authorisations division said: “The ageing population is one of the biggest policy and social challenges of our time and I think the mortgage market has a role to play. We in the regulator are not immune from this pressure either and we will consider what differences we might make to support a market that works for all of its customers.” He added that collaboration among lenders and the regulator would be needed to solve the problem, as borrowers’ lifestyles had changed and many more now use their home to fund their lifestyles in retirement. More and more people aspire for their home to provide a pension, finance long-term care, a deposit for children and grandchildren and inheritance, and for many of these people equity release is “not a panacea”.

The CML has reported that September's gross mortgage lending (GML) increased by 12% year-on-year to £61.4billion in Q3. This was up 18% on Q2 and 12% up on Q3 of 2014. Overall the value of homeowner loans for house purchases accounted for 57% of GML, remortgages 24%, and buy-to-let accounted for 18%. In the Buy To Let sector purchase loans increased by 36%, much higher than remortgages. The CML said: "Buy-to-let continues its growth this period, but at 18% of new lending in September remains the fourth largest lending type behind first-time buyers, home movers and re-mortgage. There were five times as many house purchase loans to home-owners as buy-to-let landlords in September, and the growth in buy-to-let lending largely continues to reflect its more belated recovery from recession." The number of loans to first-time buyer loans and amounts borrowed have also increased, with values reaching £4.3billion, up 10% year-on-year. In September the proportion of income paid by first-time buyers was 18.3%, the equal lowest monthly level. Lending for home movers was also up year-on-year value by 15%, and £6.8billion. The CML said: "The market was a slow starter this year, but this quarter shows it is now firmly on an upward trajectory. With competitive rates and high levels of product choice currently available, alongside generally improving economic conditions, we expect this to continue as we head into the new year."

UK

The ONS has said that the unemployment rate has fallen to a seven-year low of 5.3% in the three months to September. Earnings incl. bonuses, in the period were up 3% on a year earlier, unchanged from the three months to August, while excl. bonuses, growth slowed to 2.5% in the quarter and 1.9% in September. For the month, total wage growth was up 2.0%, down from 3.2% in August & the weakest increase since February. The Chief economist at Markit, said: "Pay growth remains central to policymaking, and interest rates are likely to stay on hold for as the official data show pay growth remaining subdued. Today's data therefore support the Bank's current projections that there will be no need to raise interest rates until 2017 due to persistent low inflation." The figures also showed an extra 324,000 EU nationals working in the UK in the past 12 months.

Europe

Eurozone GDP slowed to 0.3% in Q3, down from Q2's 0.4% and was lower than expected. Separately, in Germany growth slowed to 0.3%, while France returned to growth, also with 0.3%. The latest data will reinforce the belief that the ECB will look to expand its stimulus programme in December. Looking at the other major eurozone economies, GDP in Italy slowed to 0.2%, (worse than expected), while Spain grew by 0.8%. However, Greece contracted by 0.5%, while Finland shrank by 0.6%. The figures showed the eurozone's GDP was up 1.6% in Q3 compared to Q3 2014. "The third-quarter slowdown in eurozone GDP growth appears to have been largely the consequence of negative net trade," said an economist at IHS Global Insight. "This suggests that the benefit to eurozone exporters coming from the weak euro was offset by muted global growth." ECB President Mario Draghi said: "Signs of a sustained turnaround in core inflation have somewhat weakened. We have always said that our purchases would run beyond end-September 2016 in case we do not see a sustained adjustment in the path of inflation."

German industrial output had its steepest drop in a year in September, after a decline in production in all sectors except energy. Production was down 1.1% on August, which caught economists by surprise, as they'd been expecting a rise. In a three-month comparison, factories produced 0.3% fewer goods in Q3, with an increase in construction not fully offsetting a fall in manufacturing output. One economist commented that the data indicated the economy could not rely on industry to support growth as it heads into the final quarter. "In view of the problems in emerging markets, it's hard for us to imagine where a quick rebound for German industry should come from."

US

Nothing this week.

The Rest Of The World

The Organisation for Economic Co-operation and Development OECD, has said that a "deeply concerning" slowdown in trade, particularly with China, will lead to lower global economic growth. Global GDP is now expected to be 2.9%, down from 3% forecast in September, though it will bounce back to 3.3% in 2016. The OECD said trade had dropped to levels perilously close to those "associated with global recession". The OECD chief economist, said: "This is deeply concerning. Robust trade and global growth go hand in hand." China as the world's largest trader of goods, seemed to be "at the heart of this" as its economic slowdown had hit other Asian economies and commodity exporters. The reduction in GDP is the latest in a long line this year, down from the initial 3.7% forecast last November. However, they do say that the stimulus measures in China and other countries would help the world economy speed up next year, before accelerating to 3.6% in 2017.

The International Energy Agency has said that a record glut of oil is set to continue into next year and maintain pressure on prices. Stockpiles stand at a record three billion, and oil prices have more than halved in the past 18 months as US shale oil output and a refusal by OPEC to cut production has added to the oversupply. Brent crude rose 58 cents to $44.64 a barrel, while US crude rose 38 cents to $42.13. Although lower oil prices will lead to a decline in US production next year, the IEA said it would take months to clear the glut. "This massive cushion has inflated even as the global oil market adjusts to $50 per barrel. Demand growth has risen to a five-year high of nearly two million barrels per day," the agency said. "Gains in demand have been outpaced by vigorous production from OPEC and resilient non-OPEC supply." Growth in global demand for oil is expected to fall in 2016 as the allure of lower prices fades, the IEA added.

Markets, Swaps. Libor, Gold, Sterling

UK Swap Rates

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Thurs 12th	1.04	(+0.01)	1.25	(same)	1.56	(-0.01)	2.00	(-0.01)	N/A	N/A
Wed 11th	1.03	(-0.01)	1.25	(-0.01)	1.57	(-0.02)	2.01	(-0.03)	N/A	N/A
Tues 10th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mon 9th	1.04	(-0.02)	1.26	(-0.01)	1.59	(same)	2.04	(+0.03)	2.27	(+0.03)
Fri 6th	1.06	(+0.04)	1.27	(+0.05)	1.59	(+0.06)	2.01	(+0.05)	2.24	(+0.05)
Thurs 5th	1.02	(+0.01)	1.22	(+0.03)	1.53	(+0.01)	1.96	(+0.01)	2.19	(same)
Wed 4th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tues 3rd	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mon 2nd	1.01	(+0.01)	1.19	(+0.01)	1.52	(+0.02)	1.95	(+0.01)	2.19	(+0.01)
Fri 30th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 29th	0.51	(same)	0.58	(same)	0.74	(same)	1.04	(same)
Wed 11th	0.51	(same)	0.58	(same)	0.74	(+0.01)	1.04	(+0.01)
Tues 10th	0.51	(same)	0.58	(same)	0.73	(same)	1.04	(+0.01)
Mon 9th	0.51	(same)	0.58	(same)	0.73	(same)	1.03	(same)
Fri 6th	0.51	(same)	0.58	(same)	0.73	(-0.01)	1.03	(-0.03)
Thurs 5th	0.51	(same)	0.58	(same)	0.74	(+0.01)	1.06	(+0.02)
Wed 4th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tues 3rd	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mon 2nd	0.51	(same)	0.58	(same)	0.73	(-0.01)	1.04	(+0.02)
Fri 30th	0.51	(same)	0.58	(same)	0.74	(same)	1.02	(same)

Financial Markets – 6th / 9th November – 13th November

Index	09/11/2015	This Week	% Change
FTSE 100	6,370.55	6,115.23	-4.01%
Dax	10,969.25	10,675.46	-2.68%
CAC 40	4,970.97	4,793.55	-3.57%

Index	09/11/2015	This Week	% Change
Dow Jones	17,910.33	17,304.30	-3.38%
S&P 500	2,099.20	2,031.67	-3.22%
Nikkei	19,642.74	19,595.91	-0.24%
Hang Seng	22,726.77	22,396.14	-1.45%
Shanghai Composite	3,646.88	3,580.84	-1.81%
Sydney	5,180.30	5,111.80	-1.32%

Gold

	Price	Change	%
Forex Gold Index $/oz	1088.90	-7.40	-0.68

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	1.41630	+0.01740	+1.24	1.43680	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.51990	+0.01340	+0.89	1.71520	1.44550