14th August 2015

Market Report

Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 10th September)
- ECB - Maintained at to 0.05% - (next decision 3rd September)

The MPC voted 8 – 1 to keep the Bank Rate at 0.5% following recent speculation that the long awaited rise, that had been expected at the start of 2016, could come much sooner. Ian McCafferty was the sole vote for a 0.25% increase. The stated that: "Moreover, the persistence of those headwinds, together with the legacy of the financial crisis, meant that Bank Rate was expected to remain below average historical levels for some time to come. That guidance [2014 inflation report] on the likely pace and extent of interest rate rises was an expectation, not a promise: the actual path Bank Rate would follow over the next few years was uncertain, and would depend on economic circumstances." Common sense really. One industry commentator made the point that: 'When it comes to forecasting the next interest rate rise, the markets have been consistently wrong for the past five years. Given that the recovery is still finely balanced, the enormous level of debt and lack of any real reason why interest rates should go up in the near future, we wouldn't be surprised if rates didn't go up until 2017, rather than next year."

Outgoing MPC member David Miles has revealed that he came close to a 'yes' vote in this month's meeting, saying there was a "reasonable" case for raising rates to avoid a more rapid rise in the future. He added that there were arguments for starting "the journey now" towards a rate hike, saying that: "Sterling had gone up a bit, oil prices had fallen a bit, there were somewhat ambiguous signals from the labour market, but on balance it was a set of economic news that probably reduced at least the near-term inflation profile by a non-trivial amount." He warned that the longer the MPC leaves rates at the current 0.5% level, the faster they may need to rise in the future. With the economy on its current trajectory Mr Miles said: "you wouldn't expect to be waiting around many, many months and well into next year before you started this journey". On the housing market, Mr Miles said he did not think that the "alarm bells" were ringing yet, as new regulations and other improvements mean "the risk of all this playing out badly is much lower now than at any time in the past for the UK". He did however warn that the sensitivity of UK borrowers to changes in interest rates reinforces the case for a gradual increase from the current level.

Bank and Building Societies

Nothing this week

Housing / Mortgage Market

The CML has reported that in June remortgaging soared by 30% most likely fuelled by fears over when the MPC would raise the bank rate. In June there were 31,600 remortgages, up from May's 24,300 which is the highest level since May 2013, and was also up 25% on June 2014. Those not on fixed deals may see payments increase when base rates rise. "Notable this month is the uptick in remortgage activity among home-owners, perhaps reflecting an increased desire to lock into competitively-priced mortgage deals in advance of any rise in rates," said the CML. "It is likely that people are now beginning to feel a rate rise is a realistic prospect, and not just a distant theoretical possibility." The CML estimates that over a million homeowners have no experience of a rise in rates, according to the CML. Purchase lending also saw a sharp increase with over 20% more loans advanced compared to May, with the value of these loans up 25% to £10.6billion. The actual number and value of purchase loans remained fairly steady compared to June last year. For June overall, the value of purchase loans represented 54% of gross lending, with remortgages accounting for 25%. Lending to first-time buyers also improved on a monthly basis up 24% to £4.2billion, compared to £3.4bn in May, however annually the value against June 2014 remained flat, with the actual number of loans dropping by was 2.4%. In the Buy to Let sector, remortgages were also strong, with the value reaching £1.8billion, up 29% on May and a whopping 64% increase on June 2104. Buy To Let gross lending hit £3.4billion with the value of house purchases up 16.7% month-on-month. Buy-to-let as a proportion of total lending remained at around 17% in June but still makes up a larger portion of total lending compared to the same time last year.

The latest BBA figures have suggested that the housing market is "beginning to hot up again" as loans approved by the banks were up 14.4% year-on-year in June. The seasonally adjusted figures showed the six major banking groups approved 75,636 loans in June, up from 66,065 a year ago. There were also 44,488 loans approved for purchase (up 6.2%) on June 2014, while remortgages hit 23,985a massive increase of 32.2% on last year. There were also 7,162 loans approved for other purposes (further advances, etc...) which was an increase of 18.1% on June 2014. June's gross lending was £11.5billion, up 6.5% on 2014's total. The BBA says: "The housing market is beginning to hot up again, with a pick-up in the number of mortgage approvals for the last month. Interestingly, we've also seen an increase in the number of people remortgaging, which could be down to savvy borrowers taking advantage of competitive deals on fixed-rate mortgages ahead of a possible rise in interest rates." One industry expert commented: "With the general election finally out of the way, strong lending figures demonstrate that confidence in the housing market continues to improve. "However, the real growth in lending has been on the remortgaging side, with borrowers keen to snap up a cheap fixed-rate mortgage. With Mark Carney's recent comments about a potential rate rise at the turn of the year, we expect to see significant growth in the number of people remortgaging in coming months."

Ratings agency Moody's has claimed that borrowers will be able to handle incremental increases in the bank rate and that arrears levels are likely to rise only slightly. Their comments came after Bank of England governor Mark Carney said the MPC may consider raising rates at the "turn of the year". Moody's says that both prime and non-prime borrowers will be able to adapt to higher interest rates, although they feel that prime borrowers will be in a stronger possition due to a high proportion of loans that are fixed, higher credit quality applicants and stronger affordability models. It predicts that arrears will not rise among prime borrowers if rates were to increase 1% and that arrears levels among non-prime borrowers will rise just 1%. Even if rates were to rise by 3%, Moody's claims that just 4% more borrowers would face problems paying their mortgage. In their report they said: "In our view, non-conforming and prime borrowers that are currently up to date on their payments will be able to absorb any negative cash flow issues and adjust their discretionary spending levels." Whilst their claim may be partially correct, it doesn't mention the knock on effect into the wider economy as households rein in their discretionary spending to ensure that their mortgage is paid.

Mortgage brokers have said that the top six lenders are losing market share to smaller lenders as they have been slower to refine their criteria post-MMR. This has been highlighted in the half-yearly reports published so far, with overall, lending down from £97.6billion in H1 of 2014 to £96.6billion in H1 of this year. Also many of the results published so far have revealed that the larger lenders are losing ground to their more nimble competitors with RBS, Lloyds and Santander all showing a year-on-year decline in lending. RBS' lending is down 7.1%, Santander's is down 7% and Lloyds' down 19.1%. Lenders such as Virgin Money are up 44% year-on-year, Skipton up 31%, Coventry up 25% and Paragon up 98%. Brokers say it's because these lenders have been quicker to loosen their criteria post-MMR and are therefore ahead of their larger peers. One broker commented: "I think the smaller lenders are more fleet of foot at the moment and are able to adapt and change quicker. We are doing more now with niche lenders and we are getting approached by them all the time. "The big six are slowly reacting and are making some changes but not quickly enough, clearly." John Charcol's Ray Boulger feels that these lenders will continue to take business off the big banks, saying: "I expect this trend to continue. Several of the smaller building societies have started to get a bit more aggressive and the shifts in criteria are tending to come from these lenders. They are doing things that are a bit more innovative, particularly for older borrowers."

Halifax have said that property prices fell for the first time in five months in July. Their house price index showed a 0.6% drop last month, to leave the average price at £198,883. However, annually prices were up 7.9% with Halifax commenting: "The underlying pace of house price growth remains robust notwithstanding the easing in July. Continuing economic recovery, earnings growth in excess of consumer price inflation and very low mortgage rates all underpin housing demand. Supply is highly restricted with the stock of homes available for sale falling further to new record lows. This combination of well-supported demand and tight supply is likely to ensure that house price growth remains relatively strong in the near-term." Most industry experets agree that the dominant narrative within the UK property market continues to be weak supply and strong demand. Demand remains strong due to record low mortgage rates, more people in work, low inflation and a generally positive economic outlook. However, the increasingly likely rise in the bank rate at some point next year may well have an impact on demand, and could either bring the market crashing back to reality or see borrowers taking it comfortably in their stride.

The CML has revealed that the number of repossessions fell again in Q2. Some 2,500 homes were repossessed in Q2, down form 3,000 in Q1, and was also down from 5,400 in Q2 of 2014. Lenders said that ongoing low interest rates were keeping the numbers down but warned that homeowners must prepare for a rate rise. "This trend is very welcome. Low interest rates are acting as a significant support for homeowners in general, and are likely to be helping to stave off low level arrears for stretched households in particular," said CML. "As ever, we urge borrowers to think ahead to when interest rates rise, and to contact their lender without delay if they are in difficulty. Prompt action helps to prevent problems worsening." The CML figures broke down into 1,800 owner-occupiers, and 700 Buy To Let properties being repossessed. Arrears were also down too, with 100,700 owner-occupiers, and 5,700 landlords, having arrears of more than 2.5% of their mortgage balance.

The RICS has accused the government of still failing to address the issue of housing supply. In their latest survey, they report that the number of properties for sale has reached a record low, which has left demand still massively outstripping supply. Demand from buyers is rising at its quickest rate for 18 months, whilst the average number of properties for sale per surveyor sank to 47 in July, the lowest figure on record, which means that as a result, prices were likely to see further "sizeable gains". The RICS has said the government has stimulated demand with its various housing initiatives, but has failed to "address the real issue of supply". The RICS is calling for: "A coherent and coordinated house building strategy is required across all tenures." 44%more surveyors reported a rise in prices in July than a fall, and there was a net balance of 22% of surveyors reporting a drop in new vendor instructions for the sixth consecutive month. Also a net balance of 47% expect property prices to continue rising over the next quarter. The rising prices haven't dampened demand as new enquiries rose for the fourth month in a row.

UK

The Bank of England has halved its forecast for inflation in 2015 from 0.6% to 0.3% on the back of falling oil prices and the strength of sterling. CPI remained at 0% in June and is expected to remain around that level for the next few months, however in the latest quarterly inflation report, the bank says the outlook for the rest of the year remains "uncertain", and is likely to be "sensitive" to developments in Greece, although near term concerns have fallen. The MPC is convinced that inflation will return to the 2% target within two years, as announced in the latest report in May. The report remains positive on GDP saying this will "remain robust" as household spending has been supported by the boost to real incomes from lower food and energy prices.

The ONS has reported that unemployment increased slightly to 1.85 million in the April to June period, a rise of 25,000 on the previous quarter. It's the first time in two years that there have been two consecutive rises in unemployment. The ONS also said that earnings growth is slowing, with earnings including bonuses up 2.4% from a year ago, compared to 3.2% growth in the March to May period. Excluding bonuses, pay was up 2.8% in the April to June period, unchanged from the previous figure. The ONS said: "This is now the second consecutive time we've reported fewer people in work on the quarter. While it's too early to conclude that the jobs market is levelling off, these figures certainly strengthen that possibility. Growth in pay, however, remains solid." Youth unemployment rose marginally to 16% against 15.9% in the January to March period, but was down from 16.9% a year earlier. Markit said "doves" on the Monetary Policy Committee may see the labour market data as confirmation that the economy has started to slow, but he put it down to skill shortages. Some of the weakening in the employment trend is simply due to companies being unable to find suitable staff as skill shortages become increasingly prevalent."

Europe

Eurostat has said that GDP in the eurozone grew by about 0.3% in Q2, a slight reduction on the 0.4% in Q1. They also said that eurozone inflation was 0.2% in July, unchanged from June's figure.

The European Commission has said Greece has agreed a bailout deal "in principle" with its creditors. The Commission said a technical agreement had been reached with Greece, which now requires political approval. A deal on a new €85billion (£60billion) three-year agreement is needed to keep Greece in the eurozone and avert bankruptcy. The country needs a deal by 20 August, when it has a debt repayment of about €3billion to make to the ECB. According to reports, the deal phases out early retirement and brings in a gradual increase of the pension age to 67 by 2022. There will be a review of the Greek social welfare system with the aim of cutting expenditure, and the gas market will be deregulated by 2018. Privatisation plans for ports at Piraeus and Thessaloniki will go ahead, there will be an opening up of professions, and a tightening of the definition of who is a farmer. The Greek parliament has backed draft terms for the deal.

Some good news though, the Greek economy grew by 0.8% in Q2, beating expectations of a steep contraction. The figure is based on a flash estimate, and there was also a revision to the -0.2% in Q1 to 0%. The reading did not break down which sectors had been most active. Until these latest figures, the economy had been predicted to shrink again this year by between 2.1% and 2.3%, whereas now it is possible the contraction would be less than 2%.

US

Nothing this week

The Rest Of The World

China has set the guiding rate for its yuan currency lower for a third consecutive day. However, Thursday's rate of 1% down against the dollar was a smaller margin than the shock cuts earlier in the week. The bank had on Tuesday (11th) announced it would start setting the daily rate based partly on the previous day's trading, bringing the yuan closer to a free-floating currency. The move triggered concerns over a currency war to boost China's exports. Recent economic data had seen a decline in Chinese exports, adding to worries that the world's second largest economy was headed for a prolonged slowdown. A weaker yuan will make products cheaper abroad, meaning Chinese companies are more competitive on international markets. The national lender tried to calm concerns over the direction of the yuan, repeating assertions that there was no basis for further depreciation given strong economic fundamentals, saying the country's strong economic environment, sustained trade surplus, sound fiscal position and deep foreign exchange reserves provided "strong support" to the exchange rate.

Markets, Swaps. Libor, Gold, Sterling

UK Swap Rates

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Thurs 16th	1.10	(same)	1.33	(+0.01)	1.66	(+0.02)	2.02	(+0.04)	2.21	(+0.07)
Wed 12th	1.10	(-0.02)	1.32	(-0.02)	1.64	(-0.02)	1.98	(-0.01)	2.14	(same)
Tues 11th	1.12	(-0.06)	1.34	(-0.10)	1.66	(-0.10)	1.99	(-0.16)	2.14	(-0.25)
Holiday										
Wed 22nd	1.18	(+0.02)	1.44	(+0.03)	1.76	(-0.01)	2.15	(-0.05)	2.39	(-0.05)
Tues 21st	1.16	(same)	1.41	(-0.01)	1.77	(same)	2.20	(+0.01)	2.44	(+0.01)
Mon 20th	1.16	(same)	1.42	(-0.02)	1.77	(same)	2.19	(-0.03)	2.43	(-0.03)
Fri 17th	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 13th	0.51	(same)	0.59	(same)	0.75	(same)	1.05	(-0.01)
Wed 12th	0.51	(same)	0.59	(same)	0.75	(same)	1.06	(-0.01)
Tues 11th	0.51	(same)	0.59	(same)	0.75	(same)	1.07	(+0.03)
Mon 10th	0.51	(same)	0.59	(+0.01)	0.75	(same)	1.04	(same)
Holiday								
Wed 22nd	0.51	(same)	0.58	(same)	0.75	(same)	1.07	(-0.01)
Tues 21st	0.51	(same)	0.58	(same)	0.75	(same)	1.08	(same)
Mon 20th	0.51	(same)	0.58	(same)	0.75	(-0.01)	1.08	(+0.01)
Fri 17th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Financial Markets – 24th July – 14th August

Index	24/07/2015	This Week	% Change
FTSE 100	6,664.50	6,552.80	-1.68%
Dax	11,526.83	10,977.47	-4.76%
CAC 40	5,094.16	4,957.93	-2.67%

Index	24/07/2015	This Week	% Change
Dow Jones	17,800.97	17,408.25	-2.21%
S&P 500	2,112.22	2,803.39	-1.36%
Nikkei	20,683.95	20,519.45	-0.79%
Hang Seng	25,398.85	23,991.03	-5.54%
Shanghai Composite	4,123.92	3,965.33	-3.84%
Sydney	5,581.30	5,360.00	-3.96%

Gold

	Price	Change	%
Forex Gold Index $/oz	1116.75	+19.35	+1.76

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	1.40240	-0.01470	-1.04	1.43680	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.56390	+0.00820	+0.53	1.71520	1.44550