15th May 2015

Market Report

Central Bank Rates

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

The MPC has held the bank again with the latest decision delayed over last weeks election. The minutes of May's meeting will be released in just under two weeks' time."The decision to keep Bank Rate on hold was eminently predictable," said the EY Item Club, "Inflation remains resolutely absent, the long-awaited revival in pay growth continues to be elusive and signs of weakness in the global economy further caution against tighter monetary policy. We continue to expect rates to remain on hold until at least the first quarter of next year."

Bank of England governor Mark Carney has said that the UK should hold its promised EU referendum "as soon as necessary". "We talk to a lot of bosses and there has been uncertainty whether it's for the election or the referendum," said Mr Carney. His comments came as many analysts and economists fear businesses may delay making investments while there is uncertainty over the country's Britain's future in the EU. The Prime Minister has promised a vote on whether the UK stays in the EU by 2017. "[Businesses] have not yet acted on that uncertainty," Mr Carney added, "Or to put it another way, they are continuing to invest and they are continuing to hire," though he warned that it was in everybody's interests to resolve the uncertainty. Companies may also be investing less in technology than they otherwise would do as a result of the wide pool of available workers, plus older people are willing (& needing) to work and those seeking more hours added 500,000 to the labour force over the last two years, the governor said. Although migrant labour also expanded the workforce, its impact was only a tenth of the size according to Mr Carney, adding that he would "really dampen down" the argument that foreign workers were to blame for lower productivity. "Now that spare capacity is being used up," said Mr Carney. "For the economy to move forward, it's going to be a story of increased productivity. We think that it's going to start to pick up over the next few years."

Bank and Building Societies

Nothing this week

Housing / Mortgage Market

The RICS has said that another drop in the number of people putting their homes up for sale is pushing house prices higher. New instructions by sellers have fallen "deeper into negative territory", while the number of enquiries from would-be buyers remains unchanged. The monthly survey showed that the number of homes being put up for sale had fallen for the eighth time in the past nine months, and indicated that new instructions were falling at their fastest rate since May 2009. The RICS's chief economist said: "It is conceivable that the decisive outcome to the election could encourage a pick-up in instructions to agents and ease some of the recent upward pressure on house prices, but it is doubtful that this will be substantive enough to provide anything more than temporary relief. Alongside an increased flow of second hand stock, it is absolutely critical that the new government focuses on measures to boost the flow of new build." The RICS expect this trend to continue in the next 12 months, and warned that housing in the UK was now facing a national emergency. "The last time we were building 300,000 homes was in 1963 under Harold Macmillan's Conservative government, which utilised both public and private building," they said. "We need a coherent and coordinated house building strategy across all tenures. Introducing demand-side measures, such as extending 'Right to Buy', will not see the Conservatives deliver on their promise of one million homes by 2020."

The Halifax has said that property prices rose 1.6% in April with the annual rate of increase rising slightly to 8.5%, with the average house price now up at £196,412. The quarterly measure, rose by 2.2%, the slowest rise since January. The lender said that demand for property was supported by the improving economy, rising employment and low mortgage rates, though supply remained "very tight" with a general shortage of properties for sale. They also said that they expect the annual rate of increase to have slowed by the end of the year, however they warned that house price rises were still outstripping increases in average earnings. "The resulting rise in the level of house prices in relation to earnings should constrain house price growth and activity over the remainder of the year," said Halifax's housing economist. "The annual rate of house price growth is forecast to end the year at 3-5%." However, some economists believe that property prices are set to rise faster, "We suspect that housing market activity is now turning around gradually after losing appreciable momentum from the early-2014 peak levels, and we see activity picking up modestly over the coming months," said the chief UK and European economist at IHS Global Insight.

The Bank of England has reported that consumer borrowing soared by £1.2billion between February and March, the largest rise since the financial crisis. The biggest increase was in unsecured borrowing, including bank loans and overdrafts, which accounted for £1.1billion of the overall rise. In contrast, mortgage & credit card lending was flat, with the number of mortgages approved in March at 61,341, a small drop from 61,523 in February. One reason for the rise in bank loans is the ongoing low interest rates, as a year ago to borrow £5,000 would have cost 9.1%, but now the rate would have dropped to 8.1%. "March's sharp rise will likely fuel concern that consumers will pile up debt again to fund spending," warned one economist.

UK

The Bank of England has published its latest quarterly inflation report, which has included cuts in its GDP forecasts. The bank has cut its 2015 growth forecast from 2.9% to 2.5%, and for 2016 from 2.9% to 2.6%, and has reinforced expectations that interest rates may rise in about a year's time. Governor Mark Carney also said that deflation could emerge during the year, but that inflation was expected to pick up notably towards the end of the year. CPI Inflation was 0% in March for a second month, well below the Bank's 2% target, and is the lowest rate since estimates of the measure began in 1988. Mr Carney blamed the fall in inflation on the sharp falls in energy prices, lower food prices and strong pound, saying that these factors were responsible for around three-quarters of the fall. However, he did add that he was relaxed about the low inflation and said the factors which had driven it to zero would be "relatively short-lived". "A temporary period of falling prices should not be mistaken for widespread and persistent deflation," he said, emphasising that the economy was growing and that there was no evidence household spending was being delayed. Despite saying that consumer spending wasn’t being delayed, the bank also downgraded wage growth for 2015 from 3.5% to 2.5%. There was also a warning over the "underlying weakness" for productivity growth, revising downwards the forecast due to a disproportionate number of new jobs being low-skilled and low-output. Productivity growth is now expected to improve only modestly in 2015 before remaining below past average rates. "Today's report should leave nobody in any doubt about the fundamental role of productivity growth in the UK economy's performance," said one economist. "The Bank of England has downgraded its growth outlook, and Mark Carney has put poor productivity right at the centre of the story. He may have put part of the productivity disappointment of recent years down to a disproportionate pick-up in low-productivity jobs, but he has also admitted that underinvestment has played a role. He's right." Mr Carney also expressed his concerns that "persistent headwinds continued to weigh on the UK economy", which in turn would mean more gradual increases in interest rates than previously. "The Bank of England's latest inflation report supports financial markets' (and our own) view that the MPC is in no rush to raise interest rates," said Capital Economics. "This suggests that the MPC sees the market expectations on which the forecast is based - for interest rates to start rising in the middle of next year and reach just 1.25% by the end of 2017 - as broadly correct."

The ONS has reported that unemployment continued to fall, while the number of people in work has continued to rise. Those out of work in the January to March period fell to 1.83 million, down 35,000 from the previous quarter and the lowest for seven years, whilst at the same time, the total number in work rose to 31.1 million. The unemployment rate fell to 5.5% in the period, the lowest rate since the middle of 2008. Average pay for employees, excluding bonuses, rose by 2.2% in the quarter compared with a year earlier, and including bonuses, average pay was up by 1.9% in the same period. The figures mean that regular pay is now growing at its fastest rate for nearly four years, and is the seventh month in a row that the rate of regular pay increases has outstripped the prevailing annual rate of CPI inflation. PwC’s chief economist said the British economy had become "an incredible job-creating machine", adding that "There are also more convincing signs than ever before that this extra demand for labour is causing the market to tighten, pushing up regular pay growth to 2.2%.With consumer price inflation stuck at zero, workers are experiencing solid real pay rises for the first time since the recession." The Institute of Directors (IoD) said it expected real wages to keep on rising. "Now that the economy is growing, employees are naturally looking for real terms increases in their salaries," they said, "IoD members tell us that they are able to increase wages because of improved corporate performance, meaning these wage increases are sustainable."

The ONS has also said that industrial output grew at its fastest pace for six months in March, up by 0.5% from February. The narrower measure of manufacturing output rose 0.4% month-on-month, with February's figure revised up to 0.5%. The Manufacturers' body the EEF said the government must keep funding "important levers of growth", including research, innovation and export support. "Industrial production had been hit in recent months by declines in oil and gas production," said the EY Item Club. "However, March broke away from this theme. Growth in industrial output saw the best performance since September and is well above the consensus of flat output. The month's rise was driven partly by a surge in oil and gas production, the strongest since February 2014." On a year-on-year basis, total production output was estimated to have increased by 0.7% in March 2015 compared with March 2014.

Also from the ONS is news that the trade deficit narrowed to £2.8billion in March from £3.3billion in February. However, the £10.1billion deficit in goods was bigger than expected, but partially offset by a £7.3bn surplus in services. Exports were 1.4% higher than in February, while imports were down 1%. For the same period, the deficit was £7.5billion, £1.5billion more than in the previous quarter. The value of the pound has increased 10% against the euro since the beginning of the year, which held back the UK's exports in Q1, which were down £2.7billion on the previous quarter."The steady appreciation of sterling on a trade-weighted basis since the beginning of the year may have played a role in widening Q1's deficit," said the EY Item Club.

Europe

The latest figures have shown that the eurozone economy grew by 0.4% in Q1 as its slow recovery continues. The figure was slightly below analysts' expectations, but does at least show that growth in the bloc has been accelerating slowly over the past year. The Germany economy, held back by a fall in exports, grew by less than expected at 0.3%, while France grew faster than forecast at 0.6%. The German Federal Statistics Office also released inflation data which showed consumer prices rose by 0.5% in the year to April, up from 0.3% in March. There was also good news from Italy, which recorded its first growth since Q3 of 2011, of 0.3%. However, the figures also revealed that Greece is now back in recession, after its economy shrank by 0.2% in Q1, following the Q4 0.4% contraction An economist at IHS Global Insight said the eurozone growth figure suggested the economy had benefited from sharply lower oil prices, a weakened euro and increasing ECB monetary stimulus. "It is evident that improved growth was due to strengthened domestic demand," they said, "Domestic demand was certainly behind the improved growth in France and Italy, and it also reportedly held up reasonably well in Germany."

It's been reported that Greece has been forced to tap into an emergency account to make a debt interest payment to the IMF. The government had to raid its reserves to the tune of €750million (£538millio) payment. The news came after the Greek finance minister Yanis Varoufakis warned the country was weeks from running out of cash, and one Greek official admitted that the reserves used must be replenished in the IMF account in "several weeks". Greece also used €100million of its cash reserves to make the full payment on its IMF bailout loan interest too. Also, changes to the law have allowed the central government to collect €600million of local government and other public entity money to help it deal with the cash crisis. Mr Varoufakis has said that Greece's financial situation was "terribly urgent" and the crisis could come to a head in a matter of weeks. His comments came after eurozone finance ministers met again to discuss the final €7.2billion tranche of the €240billion EU/IMF bailout. Ministers said Greece had made "progress", but more work was needed. Greece has until the end of June to reach a reform deal with its international creditors. Its finances are running so low that it has had to ask public bodies for help. The latest moves have once again raised the prospect that Greece might default on its debts and leave the euro.

US

The US Dept of Labor has reported that there were 223,000 new jobs created in April, which was a much larger increase on March. They also said that the unemployment rate dropped to a seven-year low of 5.4%, down from 5.5% in March, as big job gains in the service sector helped to offset weakness in mining. The total was a big improvement on March's payroll figures, which were revised to show a gain of just 85,000 jobs. Analysts blamed such factors as the exceptionally cold winter in the north-east of the country for weighing on hiring in March. April's report also showed gains in employees' wages, with average hourly earnings up 2.2% from the same period last year, though this was a smaller rise than many market watchers expected. However, it could provide a boost to US consumer spending, a key driver of the US economy.

The Rest Of The World

Nothing this week

UK Swap Rates

Markets, Swaps. Libor, Gold, Sterling

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Thurs 14th	1.01	(-0.02)	1.26	(-0.02)	1.62	(-0.05)	2.06	(-0.04)	2.33	(-0.02)
Wed 13th	1.03	(-0.02)	1.28	(-0.03)	1.67	(+0.02)	2.10	(+0.02)	2.35	(+0.02)
Tues 12th	1.05	(+0.01)	1.31	(+0.03)	1.65	(+0.02)	2.08	(+0.04)	2.33	(+0.04)
Mon 11th	1.04	(+0.05)	1.28	(+0.05)	1.63	(+0.07)	2.04	(+0.07)	2.29	(+0.07)
Fri 8th	0.99	(-0.02)	1.23	(+0.01)	1.56	(+0.01)	1.97	(+0.01)	2.22	(+0.02)
Thurs 7th	1.01	(-0.04)	1.22	(-0.08)	1.55	(-0.09)	1.96	(-0.11)	2.20	(-0.12)
Wed 6th	1.05	(+0.03)	1.30	(+0.06)	1.64	(+0.08)	2.07	(+0.10)	2.32	(+0.09)
Tues 5th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mon 4th	1.02	(+0.01)	1.24	(+0.01)	1.56	(+0.02)	1.97	(+0.04)	2.23	(+0.04)
Fri 1st	1.01	(same)	1.23	(+0.01)	1.54	(same)	1.93	(same)	2.19	(+0.02)

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 14th	0.50	(-0.01)	0.57	(same)	0.70	(-0.01)	1.00	(same)
Wed 13th	0.51	(same)	0.57	(same)	0.71	(+0.01)	1.00	(same)
Tues 12th	0.51	(same)	0.57	(same)	0.70	(same)	1.00	(same)
Mon 11th	0.51	(same)	0.57	(same)	0.70	(same)	1.00	(same)
Fri 8th	0.51	(same)	0.57	(same)	0.70	(same)	1.00	(same)
Thurs 7th	0.51	(same)	0.57	(same)	0.70	(same)	1.00	(+0.01)
Wed 6th	0.51	(same)	0.57	(same)	0.70	(same)	0.99	(same)
Tues 5th	0.51	(same)	0.57	(same)	0.70	(same)	0.99	(same)
Mon 4th	0.51	(same)	0.57	(same)	0.70	(same)	0.99	(same)
Fri 1st	0.51	(same)	0.57	(same)	0.70	(same)	0.99	(same)

Financial Markets – 2nd April – 24th April

Index	24/04/2015	This Week	% Change
FTSE 100	7,062.62	6,973.04	-1.27%
Dax	11,746.12	11,559.82	-1.57%
CAC 40	5,177.19	5,029.31	-2.86%

Index	24/04/2015	This Week	% Change
Dow Jones	18,045.71	18,252.24	+1.14%
S&P 500	2,114.51	2,121.10	+0.31%
Nikkei	20,020.04	19,732.92	-1.43%
Hang Seng	28,060.98	27.862.21	-0.71%
Shanghai Composite	4,393.69	4,378.31	-0.35%
Sydney	5,906.80	5,730.00	-2.99%

Gold

	Price	Change	%
Forex Gold Index $/oz	1183.00	+42.00	+3.55

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	1.38500	-0.01330	-0.95	1.37390	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.57820	+0.06590	+4.36	1.71520	1.44550