17th April 2015

Market Report

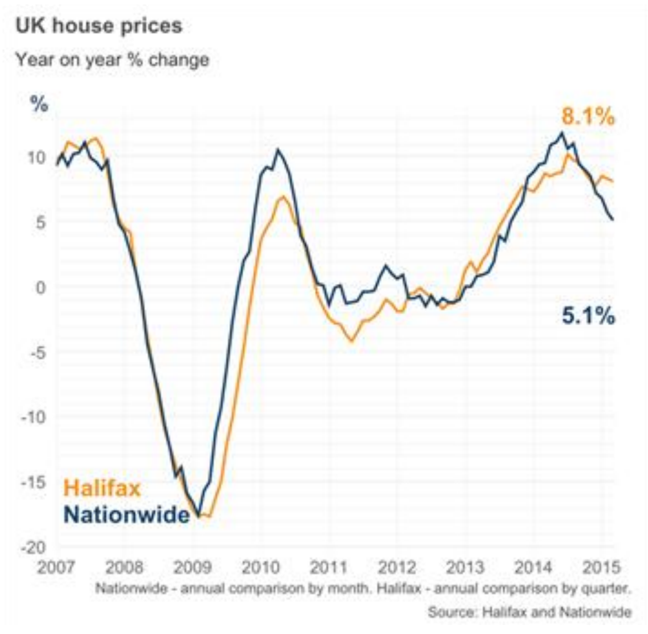
Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 7th May)
- ECB - Maintained at to 0.05% - (next decision 7th May)

The MPC has held the bank rate at 0.5% again this month, and expectations of a rise this year have receded with inflation currently at 0%. The British Chambers of Commerce, said the decision was the right one, "particularly at a time when inflation is down to zero and likely to fall into negative territory in the next few months", adding that: "While official interest rates are very low, the fall in inflation over the past year has effectively raised interest rates in real terms, for both businesses and consumers. The UK recovery is on course, but remains fragile and should not be unsettled by an unnecessary interest rate rise. Business confidence will be strengthened if the MPC states clearly that official interest rates are likely to stay at their low levels for at least another 12 months." L&G Mortgage Club called the decision unsurprising, but warned that the consistency of the low base rate doesn't mean interest rates for consumers aren't changing. "Banks don't just look at the base rate when deciding the rates they offer to consumers, they also look at swap rates which can be very volatile. The average rate offered on a two fix over the past three years has fluctuated by 1.4% and the average 5 year fix has moved by 1.3% in the same period. At the moment there are some very competitive deals around and anyone who is thinking about moving house or who is coming to the end of a mortgage deal should speak to a broker now about which deal would be right for them. Those who wait until interest rates start to rise risk missing out on the best deals as bank will raise their rates long before the Bank of England makes an announcement." Whilst the MPC has previously indicated rates could be reduced further, if the current low inflation should persist longer than expected, however most economists still expect the next move in rates to be upwards. It will be very interesting to see the minutes of this months meeting which are published on the 22nd.

Housing / Mortgage Market

Halifax has reported a rise of 0.4% in March's property prices compared to February, with another slowdown in the annual growth rate. Annually property prices were up 8.1% on March 2014 which is a slight fall on the 8.3% recorded in February. The lender said that demand for property was being maintained by earnings growth and low mortgage rates, however they warned that rising property prices and activity in the UK housing market will slow during the year as wage growth remained at a comparatively low level. They are predicting property price growth for 2015 at between 3% and 5%, which with the average property now standing at £192,970 will still mean many potential first-time buyers struggling to get on the ladder. L&G Mortgage Club says: "This shows that the market is leveling off after a sustained period of fast growth in 2014. There have been suggestions that uncertainty around the general election is stopping people from moving house or looking for a new mortgage deal and this may have contributed to the rate of growth falling. However, the recent change in stamp duty rules and the low interest rates available at the moment mean that now is actually good time to be looking for a new home or mortgage deal despite any election uncertainty. Therefore we don't expect this trend to last."



The ONS has also said that house prices are continuing to cool with a drop in the annual rate of inflation to 7.2% in February, down January's 8.4% to stand at the lowest rate for more than a year. However, between January and February, prices rose by 0.6% on a seasonally-adjusted basis, to leave the average price of a property in the UK at £268,000.

The Bank Of England's latest Credit Conditions Survey has revealed that demand for mortgages fell sharply in Q1, for the third successive quarter. Mortgages for high value property saw the biggest fall in demand since Q3 of 2008, though it is thought that demand will bounce back in Q3. The drop in demand was driven by a combination of changes in regulatory policy, concerns about housing affordability / property price inflation, as well as general uncertainty over the outlook for the housing market. However, some lenders felt that the general election may also be having an affect. "For demand to have fallen particularly sharply at the upper end of the market underlines the sensitivity of this demographic to political uncertainty," said one lender. "Many prime and super-prime buyers are sitting on their hands and want to see what the next government looks like before they commit to a purchase. That this is the most uncertain election in decades has certainly triggered more caution at this level of the market than normal." The survey did indicate that more lenders are showing a greater willingness to lend to borrowers at 90% - 95%, and most of these borrowers are likely to be first-time buyers.

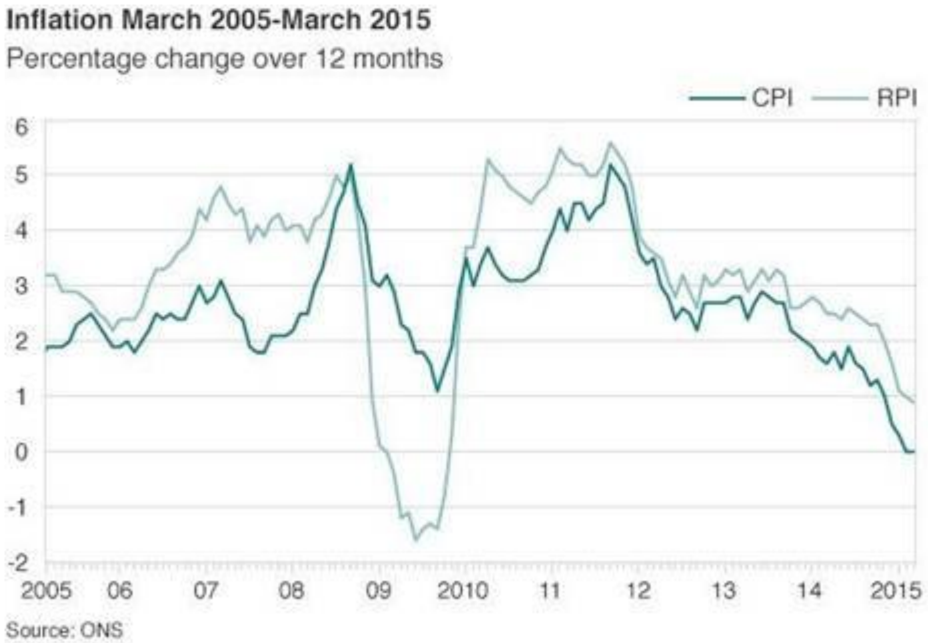
The RICS has said that property prices in most areas outside London and the North are still rising, and have described this as a "worrying" trend. Many surveyors expect house prices to continue rising over the next year, and added that demand for property was still outweighing supply. The RICSs' chief economist, said activity in the housing market was falling back. "Even more worrying are the tentative signs that price momentum could be set to pick up once again, as the supply of stock to the market continues to fall." They added that: "It is significant that price expectations nationally are accelerating both at the three and twelve-month time horizons, and at the latter, they are at their highest level since the spring of last year."

The Centre for Economic and Business Research has claimed that UK house price growth as a whole is set to outstrip London for the first time in six years. They are forecasting a 1.5% rise in house prices across the UK this year, an improvement on the 0.6% decline they predicted in January. However, they are saying that property prices in London will fall by 3.6% this year, mainly due to the potential threat of the mansion tax, reduced overseas interest and increased stamp duty rates for more expensive properties. The CEBR says: "Outside of London, the outlook for house prices this year has improved after a few months when the market appeared to be coming off the boil. December's stamp duty changes, as well as rising household incomes, are lifting prices in many parts of the UK. "In London, however, we expect prices to decline by 3.6%, driven by a significant weakening at the prime end of the market. A potential mansion tax, reduced overseas interest and hefty new stamp duty rates have hit demand for high value property." They are estimating house price growth of 2.3% in 2016, 4.3% in 2017, 3.8% in 2018, 3.6% in 2019 and 4% in 2020. London, prices are expected to return to growth in 2016, with a rise of 2.7%, then 6% in 2017, 5.5% in 2018, 3.8% in 2019 and 4.7% in 2020.

UK

The latest unemployment figures from the ONS has shown that unemployment has fallen to its lowest rate since July 2008. The number of people out of work dropped by 76,000 to 1.84 million in the three months to February to leave the unemployment rate at 5.6%, which is in line with analysts expectations. The current rate is 1.3% lower than the same time in 2014 and down from the 7.9% at the time of the last election in 2010. Capital Economics, commented that the UK's "employment miracle shows no signs of drawing to a close" and expects the jobless rate to fall further in the coming months. Employment rose 248,000 to 31.05 million - the biggest increase in a three-month period since April 2014, while the number of 16 to 24-year-olds out of work fell by 22,000 to 742,000. Across the country, the South East had the lowest unemployment rate at 4.2%, while the North East was highest on 7.7%. Unemployment in Scotland and Northern Ireland stood at 6%, whilst in Wales it was 6.2%. The ONS also revealed that average weekly earnings in the three months to February, excluding bonuses, was up 1.8% on the same period a year earlier, and down slightly on the 1.9% in January. When bonuses are included, weekly earnings rose by 1.7%. Markit's chief economist said: "The boost to spending power from the rise in real pay appears to be a big factor behind the country's ongoing economic upturn in recent months, as households take advantage of lower prices. However, there are question marks over how long this boost to consumer spending power will last." Worryingly, around 1.3 million people are in part-time jobs when they wanted full-time work, which was up 29,000 on the previous quarter, while self-employment was little changed at 4.5 million. Long-term unemployment (those out of work for 12 months or more) also fell by 188,000 to 623,000, though 107,000 people were made redundant in the period. There were 743,000 job vacancies across the UK in the three months to March, 124,000 more than a year ago and the highest since records began in 2001.

The ONS has reported that inflation remained at the record low of 0% in March, as cheaper clothing and footwear, offset the rise in petrol prices. The latest figure is still the lowest rate for the Consumer Prices Index (CPI) since estimates of the measure began in the late 1980's. However, the ONS said that if inflation was calculated to two decimal places, prices were 0.01% lower than a year before - the first fall on record for the CPI measure. One of the main reasons the CPI rate remained broadly unchanged was rising petrol and diesel prices between February and March, however the overall fall in fuel prices over the past year has been a major contributor to low inflation. Inflation is still way below the Bank of England's 2% target, and many economists still expect a dip into negative territory in the next couple of months, however they feel it unlikely that the UK is at risk of the type of entrenched deflation that Japan has suffered from. "Inflation should start to pick up in the second half of the year, especially as the downward pressure from lower oil prices eases," said an economist at the CBI. The CBI added that falling prices had benefitted households, and lower oil prices had been good for businesses in general. The EY ITEM Club, said they continued to expect the Bank of England "to wait until early 2016 before raising interest rates". The Retail Prices Index (RPI) also fell to 0.9% from 1.0% the previous month.



The ONS has said that the UK's trade deficit widened in February by more than expected to £2.86billion from £1.54billion in January. The deficit in goods was £10.34billion, up from £9.17billion in January, partly offset by a surplus of £7.5billion on services. Goods exports stood at £23.16billion, which is the lowest total since September 2010 and was largely due to weaker sales to the US. For the three months to the end of February, exports to the EU stood at their lowest since records began in 1998, leaving the deficit at a record high of £21.1billion, thanks mainly to a fall in oil exports. UK trade figures show the extent of import and export activity, and the figures won't ease fears that that the economy remains too dependent on consumer spending, which accounts for over 70% of GDP. IHS Global Insight said: "The trade data are undeniably disappointing and deal a significant blow to hopes that net trade helped UK GDP growth in the first quarter." They added that trade was likely to improve in the coming months: "While UK GDP growth will likely remain largely reliant on domestic demand, it is realistic to hope that exports will increasingly benefit as 2015 progresses from a significant pick-up in eurozone growth." The British Chambers of Commerce said: "Unless we see firm action to improve our export performance, it is not clear how we will sustain strong growth in the long-term. The UK's trade deficit with the EU reached a record high in the last three months, and while the EU is our largest trading partner, it is vital that we capture more of the export market in the fast growing economies beyond Europe."

The ONS has also reported that the industrial output figure rose by just 0.1% in February from January, which fell below analysts expectations of a 0.3% gain. The figure suggests the economy has slowed down this year, after the strong 2.8% growth in 2014. Manufacturing output showed the best growth within the industrial output measure, with a gain of 0.4% in February, bouncing back from its drop of 0.6% in January. Markit's chief economist said: "Clearly this all bodes ill for economic growth in the opening quarter of the year. It's now looking like the economy slowed, and possibly quite markedly, compared to the 0.6% expansion seen in the closing quarter of 2014. The trend should improve in March, however, according to survey data." The ONS' industrial output data covers 14.6% of the UK economy.

The CBI has estimated Q1's growth at 0.7% and predict it will 'gather momentum' over the next quarter. They highlighted stronger growth in the distribution and consumer services sectors in March, compared to February. The CBI added that they expect this sector to continue growing in the coming months, alongside the manufacturing and business and professional services sectors, which had performed less well having felt 'the effect of stronger competition'. They also warned that the main risk to the UK economy comes from uncertainty in the Eurozone around Greece's bailout package and the effects on export trading brought by a stronger pound. The survey of 764 businesses across a range of business sectors found that overall private sector growth of +18% in the three months to March was 'almost unchanged from the three months to February (+19%)'. The CBI said: "The outlook for 2015 looks encouraging. Our surveys show it's been a solid start to the year with the prospect of stronger growth to come. "The benefits of lower oil prices should be increasingly felt; with cheaper petrol boosting households' incomes and spending power, and cutting costs for many businesses."

The latest Business Trends Report by BDO has revealed that Employers in the UK plan to keep hiring more staff, despite concerns about the failure to raise productivity. The employment index stood at 113.0 for March, almost the same as February's figure and is well above the 100 level that indicates growth above the long-term trend. The report would also indicate that companies will keep creating jobs. "The hiring intentions of UK firms are at 'sky-high' levels with figures stronger than the heady days of the mid-2000s boom," BDO said. The report's optimism index also showed business confidence remained well above the 100 mark. However, it also highlighted the concern over the static level of workers' output per hour, a situation "unique amongst advanced economies". The ONS has said that productivity hasn't increased since 2007, which is unprecedented in the post-war period. This weakness has perplexed economists and been described by the IMF as a major risk to growth. BDO said the UK's continuing poor labour productivity performance was a significant concern. "Although employment growth in recent years has been strong, much of this has been in part-time jobs," they said. "Productivity ultimately determines our prosperity so it is a crucial area that must be addressed. Policy makers of all persuasions must take on this productivity puzzle".

<u>Europe</u>

Four leading German economic institutes have raised their GDP forecast for Germany due to falling oil prices and a weak euro. They are now predicting that the eurozone's largest economy will grow by 2.1% this year which is a significant upturn in the 1.3% predicted last autumn. The chief economist at the Ifo Institute, said: "The low oil price leaves the Germans more money for consumption, and the low euro is pushing exports." The report said that "consumption is the driving force behind the upturn", and added "the rest of the euro area is also expected to produce slightly positive impulses, meaning that international trade will contribute to growth." The report also called for lower taxes for small businesses after a prediction of public budget surpluses of €20billion euros (£13billion) this year and next.

The German Finance Minister has said that Greece would struggle to find creditors outside the EU and IMF, and that they would have difficulties dealing with Beijing or Moscow. His comments came amid increasing fears of a Greek debt default which has seen the country's cost of borrowing jump 3.5% to 27%. The Greek Finance Minister said his government refuses to consider leaving the EU: "Toying with Grexit... is profoundly anti-European," and promised to "compromise, compromise, compromise without being compromised" to satisfy current creditors. Ratings agency S&P downgraded Greece's credit rating again, while yields on longer-term Greek borrowing increased, with the 10-year bond yield up 1% to 13%. There have been reports that Greece has made an "informal approach" to the IMF to have its bailout repayments delayed, but had been rebuffed. There is concern in the markets that the Greek government will struggle to make the due payments if it does not agree an economic reform package with European creditors soon. Failure to come to an agreement with creditors will mean the country will default, which in turn could force the government to put limits on money transfers and possibly lead to an exit from the euro. An EU spokesman said the EU was "not satisfied with the level of progress made so far" in debt negotiations. The Greek Prime Minister has said he was "firmly optimistic" the government could reach a deal with its creditors. "Despite the cacophony and erratic leaks and statements in recent days from the other side, I remain firmly optimistic that there will be an agreement by the end of the month," he said.

US

The minutes of the Fed's latest meeting has revealed a split over when to raise interest rates. The decision is around when the economy is healthy enough to grow without help from the Fed, with some members saying that mid-2015 would be best, while others suggested later, in 2016. "Several participants judged that the economic data and outlook were likely to warrant beginning normalisation at the June meeting," the minutes said, "However, others anticipated that the effects of energy price declines and the dollar's appreciation would continue to weigh on inflation in the near term, suggesting that conditions likely would not be appropriate to begin raising rates until later in the year, and a couple of participants suggested that the economic outlook likely would not call for liftoff until 2016." The Fed has a balancing act between two competing priorities: the desire to maximise employment in the US economy, while also keeping prices in check. Some members are concerned that if rates are kept too low for too long, it could lead to difficult-to-control inflation, however recent economic data has indicated that prices in the economy are not rising significantly, and chair Janet Yellen is still concerned over the sluggish wage growth in the jobs sector. "In sum, the minutes reflect an FOMC [Federal Open Market Committee] that agrees in very broad terms about raising rates, but is far from reaching a consensus on the timing or what is the appropriate trigger for the timing of liftoff," said one.

The Commerce Dept has said that retail sales rose in March for the first time in four months, with increased spending on cars, furniture, clothing and building materials leading the 0.9% rise on February. The latest figures would suggest that shoppers are returning to the stores after an unseasonably cold winter. Core sales (excluding cars, petrol, building materials and restaurants) rose 0.3%. Economists say that sales should continue to climb due to the year-long increase in the number of people in work, along with lower petrol prices. The unemployment rate has fallen to 5.5%, as the economy has added about 250,000 jobs per month during the past year, leading to around three million more people in work.

The Rest Of The World

China's economic growth slowed further in Q1 with GDP of 7% compared to a year earlier, marking its slowest pace since the financial crisis in 2009. The rate was lower than the 7.3% in Q4 of 2014, and down on the 7.4% in 2014 and meant the country missed its annual GDP target of 7.5% for the first time in 15 years. Despite the slowdown, the economy is still one of the world's fasting-growing, with analysts saying it has been more resilient than expected. However, the slower growth, together with a cooling property market (a key economic driver) meant further easing by China's central bank this year, including further rate cuts was likely. Analysts were concerned over March's industrial production figures, which fell to 5.9% month-on-month, and were down on the forecasts for an expansion of 6.9% as well as the lowest since 2008. Analysts said these figures were more glaring than the growth data, with many describing them as "unfavourable". Most analysts feel that the IP numbers are "the real issue facing China" as exports declined "and falls in work done were being felt across the board".

The IMF is warning that global growth remains moderate, with "uneven prospects" across the main countries and regions. Although compared to 2014 the outlook for advanced countries is improving, growth in emerging and developing economies is projected to be lower, and they added that will be weaker prospects in 2015 for some oil-exporting nations. The IMF's World Economic Outlook said growth was likely to be 3.5% this year, which is in line with its January forecast, and despite the sluggish outlook for 2015, growth in emerging markets is expected to pick up in 2016, which should drive an increase in global growth next year to 3.8%. They are predicting growth of 1.5% for the eurozone this year and 1.6% in 2016. GDP for the UK is forecast as 2.7% for 2015, which is no change from January's forecast, and 2.3% for 2016, revised down by 0.1%. "In the United Kingdom, lower oil prices and improved financial market conditions are expected to support continued steady growth," said the IMF. There is no change to the forecast for China, still a continued slowdown to 6.8% this year and 6.3% in 2016, while the US is predicted to see growth by 3.1% in 2015 and 2016, which is a drop of 0.5% and 0.2% on the previous forecasts.

UK Swap Rates

Markets, Swaps. Libor, Gold, Sterling

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Thurs 17th	0.91	(-0.01)	1.09	(same)	1.35	(+0.01)	1.69	(+0.02)	1.95	(+0.02)
Wed 16th	0.92	(+0.04)	1.09	(+0.05)	1.34	(+0.05)	1.67	(+0.05)	1.93	(+0.05)
Tues 14th	0.88	(-0.03)	1.04	(-0.03)	1.29	(-0.06)	1.62	(-0.04)	1.88	(-0.04)
Mon 13th	0.91	(+0.02)	1.07	(-0.01)	1.35	(same)	1.66	(-0.04)	1.92	(-0.04)
Fri 10th	0.89	(-0.01)	1.08	(-0.02)	1.35	(-0.04)	1.70	(-0.01)	1.96	(same)
Wed 1st	0.88	(-0.03)	1.06	(-0.02)	1.33	(-0.02)	1.66	(-0.02)	1.91	(-0.02)
Tues 31st	0.91	(+0.02)	1.08	(+0.01)	1.35	(same)	1.68	(-0.01)	1.93	(same)
Mon 30th	0.89	(+0.01)	1.07	(+0.01)	1.35	(+0.03)	1.69	(+0.04)	1.93	(+0.03)
Fri 27th	0.88	(-0.02)	1.06	(-0.04)	1.32	(-0.07)	1.65	(-0.06)	1.90	(-0.06)
Thurs 26th	0.90	(+0.04)	1.10	(+0.07)	1.39	(+0.10)	1.71	(+0.09)	1.96	(+0.08)

UK Libor Rates

Date	**1 Month**		**3 Months Libor**		**6 Months Libor**		**12 month Libor**	
Thurs 16th	0.50	(-0.01)	0.57	(same)	0.69	(same)	0.97	(same)
Wed 15th	0.51	(+0.01)	0.57	(same)	0.69	(same)	0.97	(same)
Tues 14th	0.50	(same)	0.57	(same)	0.69	(+0.01)	0.97	(same)
Mon 13th	0.50	(same)	0.57	(same)	0.68	(same)	0.97	(same)
Fri 10th	0.50	(same)	0.57	(+0.01)	0.68	(same)	0.97	(+0.01)
Wed 1st	0.50	(same)	0.57	(same)	0.68	(same)	0.97	(same)
Tues 31st	0.50	(same)	0.57	(same)	0.68	(same)	0.97	(same)
Mon 30th	0.50	(same)	0.57	(same)	0.68	(same)	0.97	(same)
Fri 27th	0.50	(same)	0.57	(+0.01)	0.68	(same)	0.97	(+0.01)
Thurs 26th	0.50	(same)	0.56	(same)	0.68	(same)	0.96	(same)

Financial Markets – 2nd April – 17th April

Index	**02/04/2015**	**This Week**	**% Change**
FTSE 100	6,835.80	7,029.71	
Dax	11,984.90	11,808.43	
CAC 40	5,080.06	5,164.47	

Index	**02/04/2015**	**This Week**	**% Change**
Dow Jones	17,804.15	18,105.77	
S&P 500	2,071.44	2,104.99	
Nikkei	19,312.79	19,652.88	
Hang Seng	25,275.64	27,653.12	
Shanghai Composite	3,825.78	4,287.30	
Sydney	5,869.70	5,581.50	

Gold

	Price	**Change**	**%**
Forex Gold Index $/oz	1204.55	+6.55	+0.55

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	1.38970	+0.01780	+1.29	1.37390	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.50360	+0.01280	+0.85	1.71520	1.44550