17th July 2015

Market Report

Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 6th August)
- ECB - Maintained at to 0.05% - (next decision 6th August)

Bank of England governor Mark Carney has hinted that the bank rate could see its first rise "at the turn of this year", adding that he expected rates to rise over the next three years, reaching "about half as high as historical averages", or about 2%. However, as usual he caveated that any shocks to the economy could change the timing and size of any rises, saying that the MPC will "have to feel its way as it goes." He actually said: "Short term interest rates have averaged around 4.5% since around the Bank's inception three centuries ago. It would not seem unreasonable to me to expect that once normalisation begins, interest rate increases would proceed slowly and rise to a level in the medium term that is perhaps about half as high as historic averages. In my view, the decision as to when to start such a process of adjustment will likely come into sharper relief around the turn of this year." One economist said that although he was sticking to his forecast of the first rate rise coming in February 2016, he was "markedly less confident in this call", however he added: "Regardless of whether the Bank of England first acts in late 2015 or early 2016, we see interest rates only rising to 1.25% by the end of 2016 and 2% by the end of 2017."

The ECB has held eurozone interest rates at their historic low of 0.05% again this month, and also maintained its bond-buying programme at €60billion a month.

Bank and Building Societies

Nothing this week.

Housing / Mortgage Market

The Bank of England's quarterly Credit Conditions Review is reporting that lenders are expecting further falls in mortgage rates over the coming three months, especially in the Buy To Let Sector. Lenders expect only a "slight" reduction in residential rates, but a "significant" reduction in Buy to Let rates in Q3. The report also indicated that most lenders don't think there'll be much movement at the lower LTV's, however at the higher LTV's there was more room to maneuver. Both the proportion of loans approved and the average credit quality of new loans are expected to increase "slightly" over the next three months too. One industry commentator said: "Mortgage rates have continued to fall throughout 2015 and, at lower loan-to-values, it's hard to imagine them going much lower. There is, as this report suggests, more room for rate improvements at higher loan-to-values. "The MMR has placed considerably more emphasis on affordability and it's the background stress tests that are preventing some people, especially first time buyers, from getting a loan. Lenders are much more forensic in their underwriting and this has seen a rise in the number of rejections that would probably have passed pre-MMR. This has opened the doors to the ever-growing number of challenger banks and lenders that see the borrowers many lenders avoid as perfectly viable."

The CML has reported that gross mortgage lending increased by 15% year-on-year in June. £20.5billion was lent last month, which was up from the £17.8billion in June2014, and the figure was also a 29% hike on the £15.8billion lent in May. June's figure meant that gross lending for Q2 reached £52.2billion, a rise of 17% on Q1's £44.5billion and 1% up Q2 of June 2014. A CML economist said activity is starting to pick up after a slow start to the year, adding: "Our lending figure for June may be flattered by the end of political uncertainties related to May's general election, and the underlying picture is likely to be one of only modest recovery. This should be supported by favorable conditions in the economy, though it will be limited by rising house prices and affordability pressures."

CML has said that both the number of loans and the value for home owner purchases held steady in May, but was lower than the same month in 2014. The value of home owner loans for purchase accounted for 53% of gross lending, with remortgages at 23%. Although home owner loans as a share of gross lending, has increased throughout 2015, remortgages has fallen slightly. Also, the continuing low mortgage rates means that first time buyers are paying a record low proportion of their income to service their mortgage payments. A typical income multiple peaked in May 2014 at 3.28 times gross income, however since then it has eased downwards to stand currently at 3.17 x. The amount of monthly gross household income that goes on a repayment mortgage was 17.7%, down on last month and also on the same period last year. Remortgages dropped by 10% in both value and number in May against April, and was also down on May 2014. May's Buy To Let gross lending didn't really move on April, but was up on May 2014, due to the number of landlords remortgaging since the beginning of the year. The CML said: "House purchase lending in May was slightly up on the previous month, suggesting the market might be waking up after a subdued first quarter. Activity has broadly been down on last year but we expect it to rise in the summer months as, with historically low interest rates and a competitive lending environment, borrowing conditions are relatively favourable. But we cannot ignore the continuing affordability constraints caused by high house prices relative to earnings which will work in a contrary direction."

UK

The ONS has said that inflation eased back to zero last month, driven mainly by a drop in the prices of clothing and food. A smaller than expected rise in air fares also helped bring the CPI rate down. Bank of England governor Mark Carney has said he expects inflation to remain low in the immediate short term, however the Bank expects a pick up around the turn of the year. The Retail Price Index (RPI), which includes housing costs, remained unchanged at 1%. "Inflation has continued its pattern of recent months, when prices have been very little changed on the previous year," said the ONS. "The headline rate for June has dropped very slightly on May, back to zero, thanks to small downwards effects from movements in clothing and food prices and air fares." Most economists agree that the latest figure was good news for consumers. "With earnings growth currently seeing clear improvement and employment high and rising, purchasing power is currently in rude heath," one commented. Core inflation, (excluding energy, food, alcohol & tobacco prices), fell last month to 0.8%, down from 0.9% in May to its joint-lowest rate since 2001. "The data therefore raise questions over the whether underlying price pressures are really picking up to the extent than the Bank of England is anticipating," said the chief UK economist at Markit. They added that:"The Bank of England needs to determine whether pay growth will continue to accelerate as firms compete for staff, or whether low inflation will keep the overall rate of increase below levels that would normally worry the monetary policy committee into hiking interest rates."

The latest figures from the ONS have shown that unemployment has risen for the first time in two years. In the March-to-May period, there was an increase of 15,000 from the previous quarter, to leave the jobless rate at 5.6%. The figures also revealed that wage growth continued to pick up too, with average weekly earnings including bonuses up 3.2% annually, the fastest pace in five years. Pay excluding bonuses was up 2.8%, the highest pace since February 2009. The data showed there were 30.98 million people in work in the March-to-May quarter a fall of 67,000 from the previous three-month period and the first quarterly fall since April 2013. "It's possible that the rate of improvement in the labour market that we have seen over the last three years may have eased off, though it is too early to be certain," said the ONS. Ernst and Young, said: "Having become accustomed to persistent declines in the unemployment rate, the labour market data for the three months to May came as something of a shock." The British Chambers of Commerce, said the jobs figures suggested the economic recovery was not as strong as many hoped. "This setback is a reminder that our recovery is still fragile and that further measures are needed to nurture economic growth, in particular by encouraging businesses to invest and export," they said. "Private sector pay growth is approaching rates that would normally start to worry policymakers into tightening policy to avoid wage-price spirals developing," said the chief economist at Markit. "However, a fall in employment in the three months to May is a concern which could lead to further hesitation in starting the policy normalisation process. Survey data suggest that this drop in hiring is temporary, and that the economy has picked up speed again since the election. If the data continue to strengthen in coming months in line with the surveys, a November rate hike remains very much in the picture."

Europe

In a surprise move, the IMF has fiercely criticised the bailout deal offered to Greece by the eurozone, saying that Greek public debt was "highly unsustainable" and called for debt relief on a scale "well beyond what has been under consideration to date". The IMF told EU finance ministers that any new bailout should include measures to restructure the country's debt, adding that it regarded forecasts for growth as unrealistically high. In their report, the IMF highlighted Greek government debt reaching a peak of around 200% of GDP over the next two years, which it described as "highly unsustainable". The European Commission has now proposed a €7billion (£5billion) "bridging" loan to help Greece pay debt interest, and some of the monies could be used to repay the IMF. Greece has already missed two deadlines to pay the IMF the €1.6billion (£1.1billion) in debt interest on loans already received. There has been talk of a rift between the IMF and Greece's other European creditors over how best to deal with the latest debt crisis has been hinted at before, but this is the first time it's gone public. The IMF said that EU countries would need to give Greece 30-years to repay all its European debt, including new loans, and an extension on the maturity of its debts. The IMF warned that without such extensions, then creditors might have to accept "deep upfront haircuts" on existing loans. A senior IMF official said the fund would only participate in a third bailout if EU creditors produce "a clear plan", adding that the current deal "is by no means a comprehensive, detailed agreement." Under the latest bailout terms, eurozone governments will contribute between €40billion and €50billion to Greece's new three-year plan, with the IMF putting in another major chunk and the balance coming from selling off state assets and the financial markets. The IMF's comments raises difficult questions over the reform measures demanded by the eurozone and gives credibility to the level of debt write-offs that Greece has been arguing for. Essentially, why would Greece vote for an exceptionally harsh economic reform package, when the IMF (allegedly the global arbiter of these things) doesn't actually believe it will resolve the issues and get the country on the road to recovery?

The European Central Bank says it has increased funding to Greek banks by €900m (£627m) for one week. ECB president Mario Draghi said the bank could offer more help through Emergency Liquidity Assistance (ELA) after a bailout plan was agreed between Greece and the eurozone. Mr Draghi's said the ECB's total exposure to Greece was now €130billion. He said that debt relief for Greece was "necessary" and that the central bank would continue to act on the assumption that Greece to be a member of the euro area.

US

Fed Chair Janet Yellen has said that US interest rates are still likely to rise this year, adding that there were "favourable" prospects for more improvements in the jobs market and economy as whole. However, she warned that continued issues in Greece and China posed risks to US growth. Ms Yellen said: "If the economy evolves as we expect, economic conditions likely would make it appropriate at some point this year to raise the federal funds rate target, thereby beginning to normalise the stance of monetary policy." Ms Yellen also admitted that labour markets still showed some "slack", suggesting that monetary policy should remain "accommodative", that is, interest rates should stay low. Ms Yellen said: "Too many people are not searching for a job but would likely do so if the labour market was stronger. And, although there are tentative signs that wage growth has picked up, it continues to be relatively subdued, consistent with other indications of slack." Ms Yellen added that there were a number of international issues that could hinder GDP, including both Greece and China.

The Rest Of The World

China's exports rose in June ending three months of decline. Exports were up 2.1% compared to a year ago, however imports fell for the eighth month in a row, down 6.7%, upping the trade surplus 45% higher to 284.2billion yuan. As the world's largest trader of goods, the decline in exports has hampered economic growth, with 7% in Q1 this year, was the worst quarterly gain since the global financial crisis. China's General Administration of Customs said the debt crisis in Greece was having an impact on trade, along with weak demand, rising labour costs and a stronger currency. Authorities have rolled out a series of measures to boost activity in the economy such as cutting interest rates for the fourth time since November just last month. The government is set to release growth figures for the second quarter on Wednesday and many economists have forecast that it could slip below 7% - which would be its weakest showing in six years. Q2's GDP has come in at 7%, unchanged from Q1, with a weaker property market and factory production have denting growth. The government has launched a number of stimulus measures amid the slowdown, with the central bank cutting interest rates for a fourth time since November 2014, to try and boost economic activity. Most economists are calling for still more efforts though. On a quarterly basis, the economy expanded 1.7% in Q2, compared to the revised 1.4% for Q1.

Markets, Swaps. Libor, Gold, Sterling

UK Swap Rates

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Thurs 16th	1.16	(same)	1.44	(+0.02)	1.77	(-0.02)	2.22	(-0.02)	2.46	(-0.02)
Wed 15th	1.16	(-0.01)	1.42	(-0.01)	1.79	(-0.01)	2.24	(-0.01)	2.48	(-0.02)
Tues 14th	1.17	(+0.02)	1.43	(+0.03)	1.80	(same)	2.26	(same)	2.50	(-0.01)
Mon 13th	1.15	(+0.03)	1.40	(+0.02)	1.80	(+0.01)	2.26	(+0.04)	2.51	(-0.01)
Fri 10th	1.12	(+0.06)	1.38	(+0.08)	1.79	(+0.13)	2.22	(+0.09)	2.52	(+0.13)
Thurs 9th	1.06	(+0.03)	1.30	(+0.03)	1.66	(+0.04)	2.13	(+0.06)	2.39	(+0.06)
Wed 8th	1.03	(same)	1.27	(+0.01)	1.62	(+0.04)	2.07	(+0.05)	2.33	(+0.04)
Tues 7th	1.03	(-0.03)	1.26	(-0.09)	1.58	(-0.15)	2.02	(-0.19)	2.29	(-0.18)
Mon 6th	1.10	(+0.01)	1.35	(+0.01)	1.73	(+0.06)	2.21	(+0.04)	2.47	(+0.09)
Fri 3rd	1.10	(-0.01)	1.35	(-0.02)	1.71	(-0.03)	2.16	(-0.05)	2.42	(-0.03)

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 16th	0.51	(same)	0.58	(same)	0.75	(+0.01)	1.07	(+0.01)
Wed 15th	0.51	(same)	0.58	(same)	0.74	(same)	1.06	(+0.01)
Tues 14th	0.51	(same)	0.58	(same)	0.74	(+0.01)	1.05	(+0.01)
Mon 13th	0.51	(same)	0.58	(same)	0.73	(same)	1.04	(same)
Fri 10th	0.51	(same)	0.58	(same)	0.73	(same)	1.04	(+0.02)
Thurs 9th	0.51	(same)	0.58	(same)	0.73	(same)	1.02	(-0.01)
Wed 8th	0.51	(same)	0.58	(same)	0.73	(same)	1.03	(same)
Tues 7th	0.51	(same)	0.58	(same)	0.73	(-0.01)	1.03	(-0.01)
Mon 6th	0.51	(same)	0.58	(same)	0.74	(same)	1.04	(same)
Fri 3rd	0.51	(same)	0.58	(same)	0.74	(+0.01)	1.04	(same)

Financial Markets – 10th June – 17th July

Index	10/07/2015	This Week	% Change
FTSE 100	6,667.89	6,787.78	+1.80%
Dax	11,247.31	11,681.76	+3.86%
CAC 40	4,906.82	5,122.54	+4.40%

Index	10/07/2015	This Week	% Change
Dow Jones	17,548.62	18,120.25	+3.26%
S&P 500	2,051.31	2,124.29	+3.56%
Nikkei	19,779.83	20,650.92	+4.40%
Hang Seng	24,901.28	25,415.27	+2.06%
Shanghai Composite	3,877.80	3,957.35	+2.05%
Sydney	5,478.10	5,652.50	+3.18%

Gold

	Price	Change	%
Forex Gold Index $/oz	1162.40	-19.40	-1.67

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	1.43680	+0.04910	+3.54	1.43680	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.56540	+0.01140	+0.73	1.71520	1.44550