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more than mortgages

19th September 2014

Market Report

Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 9th October)
- ECB - Reduced to 0.05% - (next decision 9th October)

The minutes of this months MPC meeting, showed that the same two members voted again for a 0.25% rise in the bank rate. The two hawks Ian McCafferty & Martin Weale remained concerned over long term inflation, however the rest of the committee are still worried over the weak GDP growth figures in the Eurozone and the increasingly likely risk of deflation. The minutes noted that the committee is fearful that it could have significant medium to long-term impact on the UK if it persists. "Although the direct impact on the United Kingdom of the current phase of disappointing activity might be relatively modest, a prolonged period of poor growth and very low inflation could have a larger impact if it led once again to uncertainty about the sustainability of euro-area public and external debt," the minutes say. The MPC still expects UK growth to continue at a pace close to its longer-term average, though there are "early indications" that it would begin to slow toward the end of the year. The tightening labour market unaccompanied by wage growth is still puzzling the committee, who kicked around some ideas that could explain it. During the recession the number of employees changing jobs slowed sharply, as did voluntary resignations, a tend which has continued until only recently, likely due to a "lingering risk aversion" regarding the extent of unemployment during the recession. The committee felt that when the jobs market turnover finally increases, it is likely to spark wage inflation. Another cause for sluggish paypacket growth could be changes in the composition of the workforce. One economist described the minutes as "dovish" and noted that the two hawks had failed to convince any other members. Capital Economics said: "What's more, various passages of the minutes suggest that the committee is placing more emphasis on the current weakness of CPI inflation and pipeline price pressures, than on theoretical estimates of the amount of spare capacity. Given that CPI inflation looks set to continue to ease over the rest of this year, the chances of a 2014 rate hike now look slim." "There seems to be very little in the short term that would necessitate an interest rate rise. It would be no surprise if a rate rise moves back to later in 2015," said BDO LLP. "But there is an aura of uncertainty around interest rates at the moment. The views of economists as to when a rate rise will occur vary enormously and this is reflected in [the MPC's] 7-2 split."

Bank and Building Societies

It's been reported that hundreds of small business affected by RBS's controversial Global Restructuring Group (GRG) division are to sue the bank through a group legal action. Some 800 companies have approached the RBS GRG Business Action group to take part in the action, and they have appointed Clyde & Co to review the allegations, that viable companies were forced out of business by GRG. GRG is also being investigated by the FCA, and has been under scrutiny since the Tomlinson report was published in November 2013. The report claimed GRG imposed fines and hiked interest rates to push viable businesses into administration, and that RBS' property arm West Register, then bought the firms at a fraction of their value. RBS denies the allegations, however the bank is now closing GRG down.

Mortgage Market

The CML has warned that borrowers' appetite for home loans is "starting to wane" despite the latest annual rise in mortgage lending. Gross mortgage lending hit £18.6billion in August, down 5% on July but up 13% on August 2013. The seasonally-adjusted figure has been relatively flat since the start of the year, which would indicate activity was at a plateau, and the CML is predicting a "gentle slowing" in the UK housing market from now on, citing the deceleration in the London market as one reason. The CML said: "The narrative of recovering house purchase and buy-to-let activity continued through August. However, it is important to be aware that this picture is being flattered by strong seasonal factors through the summer period. A gentle slowing of lending activity may now be in prospect, as a result of the continuing impact of tighter lending rules and a softening of the London market." However, on industry commentator believes lenders will ramp up lending in order to meet their year-end targets, which would be borne out by the raft of rate reductions over the past couple of weeks.

The Bank Of England has said that July's figures show the number of mortgages advanced for home movers was 15% up on the previous month (37,000) and 19% up on July 2013. The value of these loans was £7.2bnillion, an increase of 20% on June and 31% on the previous year. However, remortgage lending is still fairly quiet, compared to first-time buyers and home movers, with only a modest 4% increase on June, and a worrying 15% on July 2013. July's total gross lending was up 10% on June to £19.7billion, and 18% on the same month last year. Buy-to-let remains buoyant with growth of 9% to £2.4bn in July, and a big 26% increase on the £1.9billion in July 2013. Around 17,500 Buy to Let loans were lent in July, with a value of £2.4billion, which a volume increase of 18% on the previous year. First time buyers saw their typical loan size increase to £127,500 in July, up from £123,750 in June and reach the highest average loan size for a first-time buyer on record. The typical gross income of a first-time buyer household also grew to £38,900 in July compared to £37,095 in June. The CML, said: "The market has shown steady growth in house purchase and buy-to-let over the past few months with general improvements in economic factors across the UK allowing for more people to enter the property market. "There have been many factors over the past year that could have caused disruption but the market has remained resilient and lenders have shown themselves adaptable to all this change. The CML will continue working towards making sure future initiatives affecting the market, such as the European Mortgage Credit Directive, are introduced with equally minimal disturbance to borrowers and lenders."

Housing Market

The latest figures from the ONS show that there's now six regions of the UK that have surpassed their pre-financial crisis average house price. The East Midlands, West Midlands and South West, have joined London, the East and South East of England in now being above the peak of late 2007 / early 2008. The ONS said across the UK in July property prices were up 11.7% year-on-year, with London showing the largest increase at 19.1%. Property prices in July rose by at least three times more than the inflation rate in August in every area of the UK. The latest rises are an increase on June's annual 10.2% and have been driven by England (up 12%), specifically with London and the South East (up 12.2%) with the East of England (up 10.6%). The slowest growth was Northern Ireland (up 4.5%), and Yorkshire and the Humber (up 5%). However, if London and the South East are stripped out, then the average growth drops to 7.9% from 11.7%. One leading industry commentator said homeowners outside London shouldn't be misled by booming London prices. "What's happening in London may be eye-catching, but it is akin to looking through a kaleidoscope - and skews any view of the current total housing landscape. "Peeling back the regional layers gives a much more informed view of the core reality of the current market. According to our own research, house price growth slowed across all regions except for London, the South East and East Anglia in July. While these three regions continue to set new house price highs, the rest of the country is nowhere near these levels of growth." They also added that: "Most recently we're seeing asking prices in the capital start to be reined in, which will apply the brakes on annual house price inflation as the market steadies. With evidence of London starting to cool off after strong growth earlier in the year, it is critical that the underlying momentum that has stimulated much needed increased volume in the rest of the market is allowed freedom to keep moving, whilst any price rises are kept steady and under control."

Average house prices:

UK: £272,000, annual rise of 11.7%

England: £284,000, up 12%

Wales: £171,000, up 7.4%

Scotland: £198,000, up 7.6%

Northern Ireland: £139,000, up 4.5%

North East of England: £156,000, up 9.5%

North West of England: £175,000, up 7.7%

Yorkshire and the Humber: £174,000, up 5%

East Midlands: £187,000, up 7.6%

West Midlands: £198,000, up 7.3%

East of England: £282,000, up 10.6%

London: £514,000, up 19.1%

South East of England: £337,000, up 12.2%

South West of England: £246,000, up 7.1%

Estate Agent Rightmove has claimed that the autumn property market has sparked back into life following a summer lull with an increase of 0.9% on asking prices in September. This brings the average asking price to £264,875 and bucks the usual September trend of a 0.5% drop. Esurv surveyors reported that purchase approvals dropped by 4.6% in August, the second consecutive month to see a fall. Agents reported strong enquiry levels during August indicating a good level of demand was prevalent in the market. Rightmove says it received 4 million enquires in August, the second highest amount of enquiries it has ever received, with only January this year being marginally higher. Year-on-year, August enquiries were 16% higher. Rightmove director and housing market analyst, said: "We usually see a price fall at this time of year as potential home-movers are generally still in holiday mode. However, it looks like there are early signs of a bounce-back in demand after the summer lull, leaving those estate agents with a shortage of stock at a potential disadvantage and therefore eager to attract new instructions." Rightmove said that although there was more property coming to market this year, the excess had been swallowed up by increased sales. One estate agent said the prospects for an expansion in supply looked good as many more home owners considered a move before Christmas. In the first two weeks of September, there's also been a number of mortgage rate reductions as lenders seek to catch up targets, that fell behind in the wake of the introduction of the MMR. For the remainder of the year, the stability of the housing market is distinctly uncertain, especially with Scotland deciding whether to become an independent country. Rightmove said that even the presence of a debate around Scottish independence and its implications for the UK economy could cause uncertainty in the minds of potential home-movers contemplating a large long-term financial commitment.

The RICS has said that the housing market has reached a "plateau", as the number of house sales agreed in August fell for the first time in two years, and surveyors expect prices to rise more rapidly outside London than in it. The biggest increases are expected in Northern Ireland, The East Midlands and Scotland. The RICS said price momentum in London had started to "soften", as flats and houses had become more unaffordable. "In some areas the recovery has only recently taken hold and affordability is rather less stretched," said the RICS chief economist. "Significantly, members now expect price gains over the next year to be faster outside of the capital, than in it." Economists called the figures further evidence that the market was running out of steam, as a big fall in the number of enquiries from new buyers, and a lengthening in the time it takes for sales to go through were also reported. The RICS cited the new, tougher, mortgage rules (MMR) for the slow-down, adding that the imminent prospect of a first rise in interest rates for over five years was also having an effect.

UK

The Consumer Price Index (CPI) dropped to 1.5% in August from 1.5% in July, as the cost of petrol, food and non-alcoholic drinks all fell. The Retail Price Index (RPI) also saw a reduction, to 2.4%, from 2.5% the previous month. It means the MPC remains under little pressure to raise the bank rates in order to keep CPI inflation at or below its target rate of 2%. The ONS said competition between rival supermarkets was a factor, though the price of clothing, transport services and alcohol all went up quicker than the headline inflation rate. "For all the chatter, guesswork and prophecy around possible rate hikes in the UK, inflation is currently sat at a five-year low," commented one economist. Others called the figure good news for consumer purchasing power, currently being pegged back by very low earnings growth. CPI inflation is still way above average wages, which rose by just 0.6% in the three months to June from a year earlier. This is the eighth month in a row where inflation has been below the target of 2%, which means that there's chance on the MPC increasing the bank rate.

The ONS has also reported that the unemployment rate fell to 6.2% over the three months to the end of July, to stand at its lowest level since 2008. The number of jobless dropped by 146,000 to 2.02 million over the quarter. However, average weekly earnings are still lagging way behind inflation, with growth excluding bonuses up by only 0.7% from a year earlier, while including bonuses, they rose by just 0.6%. "These were the largest quarterly and annual falls in youth unemployment since comparable records began in 1992," the ONS said. Although the number of people in employment rose by 74,000 to 30.61 million over the period, this was the smallest quarterly increase since the April to June quarter in 2013. Economists feel that although the fall in unemployment points to a still rapidly tightening labour market, which in turn should put pressure on the

MPC to raise rates, the weak levels of wage growth indicates an appreciable amount of labour market slack with little pressure on inflation coming from pay.

More from the ONS as retail sales increased by 0.4% in August, boosted by last minute purchases of high-powered vacuum cleaners before the EU ban came into force. Sales were also up 3.9% on August 2013. Demand for household goods (mainly furniture / electrical goods) was the prime driver. Average store prices in August were down 1.2% from a year ago, the ONS said, the largest annual fall since July 2009. The continuing price war between supermarkets meant that prices at food stores were down 0.1%, the first annual fall in this sector since December 2004. Although the 0.4% rise in August was an improvement on the previous two months, many analysts are expecting "significantly reduced growth" in sales during Q3 compared to Q2. The British Chambers of Commerce, noted that deflation in the retail sector had "intensified" last month, saying: "This signals that inflationary pressures in the economy are easing, while wage growth remains stagnant. It also reinforces our view that the [Bank of England's Monetary Policy Committee] should not consider higher interest rates until well into next year."

The Scottish Referendum

After al the campaigning and hype, the result is finally in and Scotland has voted against independence to stay within the United Kingdom. The No campaign sealed a win after the number of 'No' to independence votes went past 'Yes' votes to reach 55% against 45% announced at 06:11 am BST. It is that estimated 84% of the Scottish electorate turned out to vote. While Scotland's first minister Alex Salmond conceded he had "accepted the verdict of the people." PM David Cameron made a lengthy statement which although restated the pledge to begin work immediately on additional powers for Scotland, he also dropped the bombshell that England, Wales and Northern Ireland should now be able to vote on their own tax, spending and welfare, which could spell the end of Scottish MP's being able to vote on matters that effect the rest of the UK. Mr Cameron added that a white paper on Scotland's additional powers would be published in November with plans to draft laws by January 2015. Many analysts had warned that regardless of the outcome of the final referendum vote, UK governance could be changed forever. One prominent fund manager commented that the increased powers available to Scotland could mark the beginning of the "fragmentation of governance in the United Kingdom." He added that the process could have "considerable economic ramifications" for the UK, saying that: "This uncertainty will have a dampening effect on consumer sentiment, business confidence and investment intentions."

Europe

France's finance minister has warned that the country will not achieve a 3% EU budget deficit target. Instead he said that the country's budget deficit will be around 4.4% of GDP in 2014, drop to 4.3% next year, and will not go below 3% until 2017. The minister also lowered the country's growth projections for this year and next., saying that the country's lack of growth reflected "an economic reality" that affects Europe. GDP forecasts are down from 0.7% to 0.4% in 2014, and down from 1.7% to 1% in 2015. The government will maintain its current plan for 21billion euros (£17billion) of public spending savings in 2015 while not raising taxes during that year. France plans to cut public spending by 50billion euros by 2017. The country has missed a number of budget deficit targets, and has struggled with high unemployment and low growth.

The ZEW economic sentiment index has revealed that investor sentiment in Germany fell for the ninth month in a row as the conflict in Ukraine and weak economic growth in the eurozone continues to undermine confidence. The index was down another 1.7 points to 6.9 in September, and remains well below its long-term average of 24.6. The fall was less than in August and less than analysts had expected, but nonetheless raises awkward questions about the strength of the German economic recovery. ZEW said that although the downward trend had slowed significantly, "the economic climate is still characterised by great uncertainty. The risk of sanction spiral with Russia continues to exist and economic activity in the eurozone remains disappointing." ZEW also commented that it was "difficult to assess potential consequences of Scottish independence." The ZEW survey "just sent more signs of caution, showing that at least financial market participants are quickly losing confidence in the German growth story", said ING.

Inflation in the eurozone stayed steady at 0.4% in August, a slight upwards revision on the original estimate of 0.3%, to leave it unchanged on July. However, this is still much lower than August 2013's figure of 1.3%, and way below the target of 2%.

Earlier this month the ECB cut its benchmark interest rate to 0.05% and introduced an asset purchase programme to buy debt products from banks, in an effort to add liquidity to the financial system and revive lending. The marginally better inflation figure will do nothing to ease the fears that the eurozone could tip into deflation, which would make it harder to restore the region's moribund economy to health. The latest figures show that Italy and Estonia joined Spain, Greece, Slovakia and Portugal in seeing falling prices over the past year.

US

The Fed has confirmed that it is to end its stimulus programme in October, but will only raise interest rates once a "considerable time" has passed. The latest meeting of the Fed, has now got analysts, investors, and markets around the world are focusing on the phrasing that a "considerable time" will need to pass from the end of QE to when rates begin to rise. "As I have said repeatedly, the decisions that the committee makes about what is the appropriate time to begin to raise its target for the federal funds rate will be data dependent," Fed Chairperson Janet Yellen said. "If the events surprise us and we are moving more quickly toward our objectives and the committee sees a need to move sooner, or later depending on what the data is... I do feel we have the flexibility to move," she added. She also reiterated that markets must accept a level of uncertainty about the Fed's policies "It is important for markets to understand that there is uncertainty and the statement is not some sort of firm promise about a particular amount of time." The Fed released an updated plan to "normalise" its policy in addition to its traditional statement. "When economic conditions and the economic outlook warrant a less accommodative monetary policy, the Committee will raise its target range for the federal funds rate," wrote the Fed, but noted that discussions about a rate rise were "part of prudent planning and do not imply that normalisation will necessarily begin soon". In a rare display of dissent, two members of the Fed's policy committee departed publicly from the decision to keep the language surrounding interest rate rises the same.

The latest Labor Dept figures shows that consumer prices fell in August for the first time since April 2013. The Consumer Price Index fell 0.2% last month, after the increase of 0.1% in July. In July, the annual rate of inflation was 2%.

The Commerce Dept has said that retail sales rose by 0.6% in August, compared to the previous month, driven by mainly by car purchases. On a yearly basis, they rose by 5%. Car sales were up 9.5% from August 2013, and healthcare stores, up 8.1% from last year. Retail sales account for 70% of the US economy and analysts said the figures pointed to stronger overall economic growth. "With further jobs gains, rises in income growth and a loosening in credit conditions in the pipeline, consumption growth should strengthen in the fourth quarter and in to next year too, " said Capital Economics. July's figure was also revised upwards to a 0.3% rise. A separate consumer survey, also showed greater optimism, with their index rising to 84.6 in September, from 82.5 in August. The general pick up in the US economy has fuelled debate as to when the Fed will begin to raise interest rates, with Markit saying: "the likelihood of the first rise in interest rates occurring earlier than mid-2015". They went onto say that : "Both the official and survey data therefore point to ongoing strong momentum of the US economy in the third quarter, suggesting that the recent slowing in non-farm payroll growth seen in August may prove temporary and that policy makers will be encouraged that further strong job creation will be sustained in coming months."

The Rest Of The World

The Organisation for Economic Co-operation and Development (OECD) has said that the slow recovery among the eurozone nations is holding back the global economy. They've downgraded their growth forecasts for most big economies, citing the conflicts in Ukraine and the Middle East, as well as the referendum in Scotland, describing them as areas of risk and uncertainty. The 2014 estimate for the eurozone is now just 0.8% growth, compared to the forecast of 1.2% in May. The UK's forecast was also cut by 0.1% to 3.1%. 2014's US growth was cut to 2.1% from 2.6%, while was Japan was down to 0.9% from 1.2%. The OECD did not provide an update to its forecast for global growth for 2014, which it forecast at 3.4% in May. "Continued slow growth in the euro area is the most worrying feature of the projections," the OECD said. Amongst non-OECD members, China's remained unchanged at 7.4% as the country "has so far managed to achieve an orderly growth slowdown to more sustainable rates". India was the only economy to be judged by the organisation as likely to grow quicker, with its forecast upgraded to 5.7% from 4.9% after voting in a new government to pursue growth-oriented reforms and progress in containing inflation.

China's central bank is reported to be injecting 500billion yuan (£50billion) into the country's five biggest state-owned banks in a bid to counter slowing growth. The People's Bank of China (PBOC) is to give each bank a $100billion low-interest loan over three months, the first of what analysts are saying may be several stimulus measures. China's economy showed more evidence of a slowdown with industrial production and foreign direct investment hitting multi-year lows in August. Economists say the move could have a similar effect to that of a 0.50% cut in the reserve requirement ratio, which is the amount of money China's commercial lenders must deposit with the PBOC. One economist said that policymakers have been under pressure to "take additional, more significant measures to ease the policy stance and shore up growth". "It increases the money base. If not constrained by caps on loan-to-deposit ratios or other administrative regulation, it would increase the banks' ability to extend credit," they said. "In our view this measure reduces the chance of other, bigger steps in the monetary sphere in the very short term. We think it is likely to see measures such as supporting infrastructure and the property market."

In August, Japan's trade deficit narrowed as a fall in imports lowered the country's energy bill for the month. The shortfall between imports and exports shrank to 948.5billion yen (£5.4billion) 2.4% lower than in July. The country's imports fell by 1.5% in August from the year before, as the country bought less crude oil and liquefied natural gas. Japan's energy bill has been the main reason for its ballooning trade deficit since 2011. Japan has now posted a trade deficit for the last 26 months. The data also showed a decline in exports in August, by 1.3% when compared to the previous year., which was a big reverse from the near 4% year-on-year increase in exports in July. The fall in exports, which is being blamed on weak external demand, is causing concern over Japan's economic prospects. The world's third largest economy has been struggling to return to growth since a consumption tax hike earlier this year led to a slowdown in domestic consumption and retail sales. It is also designed to raise revenues to fund the increasing welfare costs of Japan's ageing population. The figures also confirmed that Japan suffered its sharpest quarterly contraction since the 2011 earthquake, which if taken on an annualised basis, would mean GDP shrank 7.1%.

Markets, Swaps. Libor, Gold, Sterling.

UK Swap Rates

Date	2 Year		3 Year		5 Year		10 Year		25 Year	
Thurs 18th	1.30	(+0.02)	1.64	(+0.03)	2.11	(+0.05)	2.64	(+0.05)	3.07	(+0.04)
Wed 17th	1.28	(+0.02)	1.61	(+0.03)	2.06	(+0.03)	2.59	(same)	3.03	(-0.01)
Tues 16th	1.26	(same)	1.58	(same)	2.03	(same)	2.59	(-0.01)	3.04	(-0.01)
Mon 15th	1.26	(same)	1.58	(same)	2.03	(same)	2.60	(+0.01)	3.05	(same)
Fri 12th	1.26	(+0.02)	1.58	(+0.02)	2.03	(+0.04)	2.59	(+0.04)	3.05	(+0.03)
Thurs 11th	1.24	(+0.01)	1.56	(+0.02)	1.99	(+0.01)	2.55	(+0.03)	3.02	(same)
Wed 10th	1.23	(same)	1.54	(same)	1.98	(+0.01)	2.52	(+0.01)	3.02	(+0.03)
Tues 9th	1.23	(+0.04)	1.54	(+0.04)	1.97	(+0.04)	2.51	(+0.02)	2.99	(+0.02)
Mon 8th	1.19	(-0.03)	1.50	(-0.05)	1.93	(-0.05)	2.49	(-0.02)	2.97	(+0.01)
Fri 5th	1.22	(-0.03)	1.55	(-0.03)	1.98	(-0.03)	2.51	(-0.02)	2.96	(same)

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 18th	0.51	(+0.01)	0.57	(+0.01)	0.71	(same)	1.05	(same)
Wed 17th	0.50	(same)	0.56	(same)	0.71	(same)	1.05	(same)
Tues 16th	0.50	(same)	0.56	(same)	0.71	(+0.01)	1.05	(same)
Mon 15th	0.50	(same)	0.56	(same)	0.70	(same)	1.05	(same)
Fri 12th	0.50	(same)	0.56	(same)	0.70	(+0.01)	1.05	(+0.02)
Thurs 11th	0.50	(same)	0.56	(same)	0.69	(same)	1.03	(same)
Wed 10th	0.50	(same)	0.56	(same)	0.69	(same)	1.03	(+0.01)
Tues 9th	0.50	(same)	0.56	(same)	0.69	(-0.01)	1.02	(-0.03)
Mon 8th	0.50	(same)	0.56	(same)	0.70	(-0.01)	1.05	(same)
Fri 5th	0.50	(same)	0.56	(same)	0.71	(same)	1.05	(same)

Financial Markets – 8th September – 19th September

Index	08/09/2014	This Week	% Change
FTSE 100	6,785.49	6,861.80	+1.12%
Dax	9,737.60	9,819.77	+0.84%
CAC 40	4,471.98	4,456.51	-0.35%

Index	08/09/2014	This Week	% Change
Dow Jones	17,137.36	17,265.99	+0.75%
S&P 500	2,007.71	2,001.57	-0.30%
Nikkei	15,705.11	16,321.17	+3.92%
Hang Seng	25,190.45	24,306.45	-3.51%
Shanghai Composite	2,326.43	2.329.45	+0.13%
Sydney	5,578.90	5,437.30	-2.54%

Gold

	Price	Change	%
Forex Gold Index $/oz	1222.50	-43.50	-3.44

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	1.27150	+0.02610	+2.09	1.27800	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.64300	+0.02220	+1.38	1.71520	1.44550