23rd October 2015

Market Report

Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 5th November)
- ECB - Maintained at to 0.05% - (next decision 5th November)

Bank of England governor Mark Carney has warned that EU regulation needs to be more flexible and tailored to member states or it will risk the Bank's ability to oversee the UK economy. He highlighted the bankers' bonus cap in particular, saying it is "restricting the proportion of pay that can be clawed back in the event of excessive risk taking or poor conduct, thereby weakening discipline from remuneration". He went to say that there should be additional "national discretion in insurance supervision" and also urged for better protection for non-euro members. Mr Carney said: "The future direction of EU financial reform should recognise that the EU comprises multiple currencies with multiple risks. It is desirable, particularly given the weight of the ECB and of the members of the single currency within the EU, that there are clear principles to safeguard the interests of non-euro member states." He also said that he supported a reformed EU membership, stating that being in the EU has provided more openness and dynamism in the UK economy, though he's worried that it risks restricting UK markets with onerous regulation.

Bank and Building Societies

Nothing this week

Housing / Mortgage Market

As expected the Chancellor has decided to give the Financial Policy Committee (FPC) the powers to intervene in the buy-to-let market. Although the Treasury had been due to consult on whether to give the FPC powers over the buy-to-let market the Chancellor revealed that: "The governor of the Bank of England and the FPC have asked for the additional powers and we are in the process of granting those." When asked how this would affect the Treasury's consultation on the changes, the Chancellor said that they would chiefly be considering "how they have those powers". The Chancellor's announcement comes hot the heels of the FPC's comments just last month that it had no "no immediate cause" to take action in the buy-to-let market. The Chancellor refused to give any specifics of the "powers" he is giving the FPC over buy to let, but coyly offered that there were 'a number of tools' that could be used and that it was important to consider 'how they [the FPC] have the powers'. When asked when the FPC would be able to begin its intervention, The Chancellor replied: "I'd better wait until we make the official announcement, but as soon as possible."

The CML has reported that September's gross mortgage lending (GML) went up by 12% to £20billion, from the £17.8billion a year earlier. The figure was also up 2% on August's total of £19.7 billion, and is the fourth month in a row that there's been a sharp rise in year-on-year lending. GML in Q3 is estimated to be £61.4 billion, which is 18% higher than the £52.2 billion lent in Q2, and up 12% on the £55billion Q3 of 2014. The CML says: "Mortgage lending is currently enjoying its best spell since 2008. As we expected, the second half of 2015 has seen a pick up in activity in the housing market after a slow start to the year. Low inflation, strong wage growth, falling unemployment and competitive mortgage deals are all helping to support housing demand. We expect to see further modest growth towards the end of the year, although affordability pressures are likely to limit gains for home movers and first-time buyers." OneSavings Bank's John Eastgate commented: "The slight dip in the mortgage market seen in August is now disappearing in the rear view mirror as lending returns to an upward trajectory, growing by 2% in September. Buoyancy in the market is supported by persistently low mortgage rates. The recent global economic uncertainty has caused central bankers to hit the pause button on possible rate rises, with many speculating that the UK may not see rates increasing before late 2016. House prices also grew at their slowest rate for two years last month, and if this trend continues, should ease affordability issues for buyers." The L&G Mortgage Club also said that GML for the year as a whole is likely be around £210billion, which is short of the £220billion prediction they made at the start of the year.

The ONS has reports that property prices in the last year in England have risen much faster than the rest of the UK. Prices in England went up 5.6% in the 12 months to the end of August, which was better than Northern Ireland's 2.9%, the 0.8% rise in

Wales and drop of 0.9% in Scotland. This left the average price of a home in the UK at £284,000. On a monthly basis the pace of property price rises was unchanged in August compared to July, while annually the increase of 5.2% was still much faster than consumer prices in general, which were unchanged over the same period. One economist said: "The figures show a robust housing market, providing further ammunition for those calling for an interest rate rise in the near term. With inflation likely to rise over the coming months as last winter's energy price decline drops out of the equation, we expect pressure to continue to build on the MPC." However, that position was countered by Legal & General Mortgage Club who said: "It's important to look at the long-term trends. A 5.2% annual increase is a substantial climb, where the imbalance in supply and demand is clearly driving up house prices beyond the reach of many aspiring homeowners. This relentless rise of house prices is bad news for the overall health of the market, as it can stop first-time buyers from stepping onto the property ladder. It also limits the amount of choice available to home-movers. In order to alleviate pressure on the market and enable more people to buy, the UK urgently needs to build more houses to bring supply back in line with demand. It is vital that the government and the construction industry work together to make this possible." The ONS said that house prices were rising faster for owner-occupiers (up 5.8%) than they were for first-time buyers (up 3.8%). Regionally, the fastest property price rise was seen in the East of England (up 8.8%), with Scotland registering the only fall in average prices.

House Price Change – Nations / Regions	
East	**+8.8%**
South East	**+7.4%**
South West	**+6.1%**
Yorks & Humber	**+4.8%**
North West	**+4.7%**
London	**+4.2%**
West Midlands	**+3.6%**
East Midlands	**+3.1%**
North East	**+2.9%**
Northern Ireland	**+2.9%**
Wales	**+0.8%**
Scotland	**-0.09%**

The CML has said that activity in August took a dive compared to July with 62,300 purchase loans approved during the month. This was a fall of 9.3% on July, and only a slight increase of 1.5% on August 2014. Analysts highlighted that there's usually a lull in activity during August as potential homebuyers took time out for summer holidays.

It's been revealed that the government's Builders Finance Fund (BFF), launched in April 2014, to "unlock" hundreds of housing projects stalled by the economic slowdown, has used only £1million of the £525million available. Just two projects have so far benefited from the fund which ends in March 2017, despite claims that there'd been "high levels" of interest from builders and that "many" schemes would get funding. The latest government target for housebuilding is for one million new homes by 2020. The BFF offers loans to builders with planning permission for between 15 and 250 homes. The House Builders' Association, said there were doubts over the fund's viability & the rules were too complicated. "The government stated that the fund would bring 13,000 new homes but that has clearly not been the case over the past year," they said, while the Federation of Master Builders, said: "We are disappointed that take-up is so low. We want to work and try to change it and make it more simple to access."

UK

The ONS has said government borrowing fell in the first six months of the financial year. Public sector net borrowing (excluding public sector banks) came in at £46.3billion for April to September, a fall of £7.5billion (13.9%), on a year earlier. September's borrowing was £9.4billion, down £1.6billion on September 2014. In July, the Office for Budget Responsibility (OBR) predicted the figure for the whole year would be £69.5billion, which was down 22.9% on the estimate of £89.2billion from 2014-15. Also August's borrowing was revised downwards by £500million & July's was lowered by £2.5billion, although the figures for April & May both increased by £800million. However, despite the good headline news, the figure only improved due to higher tax receipts, & so far this year is only down by 14%. Capital Economics said: "If the current trend continues, borrowing in 2015-16 as a whole will come in at about £78bn, much lower than 2014-15's total. Admittedly, this would be above the OBR's forecast... but there is still plenty of the fiscal year to go. So there's no need for the chancellor to panic yet."

The ONS has also revealed that retail sales were up for the 29th month in September, partly thanks to the Rugby World Cup. Sales increased 6.5% on September 2014, and were up 1.9% on August. "Falling in-store prices and promotions around the Rugby World Cup are likely to be the main factors why the quantity bought in the retail sector increased in September at the fastest monthly rate seen since December 2013," said the ONS. Average shop prices including petrol stations were 3.6% lower in September than they had been a year earlier.

Deflation returned in September, as the CPI fell to -0.1% last month, with the ONS citing a smaller than usual rise in clothing prices, plus further drops in fuel prices, as the main drivers behind the fall. CPI rate has been at or close to zero for most of this year, dipped into negative territory in April. Many benefits will be frozen from April because of the latest data. Petrol prices fell by 3.7p per litre over the year, and diesel prices - at 110.2p per litre - are at their lowest in close to six years. RPI inflation measure fell to 0.8% in September, from 1.1% in August. An economist at Hargreaves Lansdown, said the latest CPI figure meant there was "no pressure on the Bank of England to lift interest rates", though inflation should start increasing in the coming months, as the big drop in fuel prices fall out of the year-on-year calculation. Core inflation, which excludes out volatile items such as food and energy, remained weak at 1.0%, which again underlines there's little inflationary pressure, even though wage growth has strengthened. The British Chambers of Commerce, said they expected inflation to remain at or below 0% for most of this year, and added that: "Our forecast is that annual CPI inflation will start to creep upwards early in 2016, but will remain below the 2% target well into 2017. "The benign outlook for inflation is also reinforced by our quarterly economic survey, which shows that the proportion of manufacturers expecting to raise prices has fallen to a five-year-low."

More news from the ONS is that the unemployment rate fell to a seven-year low of 5.4% in the three months to August. The jobless rate is now at its lowest pointy since Q2 of 2008, however whilst the number of people out of work was down 79,000 from the previous quarter, the number working part-time rose 68,000 to 8.35 million. Also in the three months to August, earnings, including bonuses, were up 3% from a year earlier - slightly less than expected, whilst excluding bonuses, the growth was down slightly at 2.8%. Although wage growth remains weaker than before the financial crisis, it has improved at a faster pace than the Bank of England predicted earlier this year, and is a crucial factor in the MPC's deliberations each month. The chief economist at PwC, said the strong employment figures contrasted with less robust data for retail sales, manufacturing and construction for July and August. "We'll probably see some slowdown in overall GDP growth in the third quarter, reflecting more uncertain global conditions, but the health of the jobs market continues to underpin the domestic economic recovery," he said.

Europe

The ECB has said it will "re-examine" its €1.1 trillion QE stimulus programme at its December meeting. Earlier this year the central bank launched the scheme of bond purchases at €60bn per month designed to bring eurozone inflation back up, however consumer prices fell by 0.1% in the euro area in September, which has led to speculation of changes to the bank's QE policy. "The asset-purchase plans are proceeding smoothly and continue to have a favourable impact," said ECB President Mario

Draghi. "The degree of monetary policy accommodation will need to be re-examined at our December meeting." The ECB admitted it had taken part in "a very rich discussion" on a number of areas of monetary policy, including a potential further cut in the rate charged to banks to leave money on deposit at the central bank. One economist said that the ECB also seemed to have indicated that it was open to a "whole menu" of monetary policy instruments. "Significantly, interest rate cuts now appear to be back on the table, having seemingly been off the agenda since September 2014," they added. Mr Draghi also said that the eurozone inflation rate was set to remain very low in the near-term.

US

Nothing this week.

The Rest Of The World

The Chinese central bank has cut its one-year benchmark interest rate by 0.25% to 4.35%, and also cut the ratio of Chinese currency that it expects its banks to hold. China hopes that looser monetary policy, in the shape of cheaper money, will help it hit its growth target of 7% for 2015.

Markets, Swaps. Libor, Gold, Sterling

UK Swap Rates

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Thurs 22nd	0.92	(-0.02)	1.09	(-0.01)	1.39	(-0.01)	1.83	(-0.01)	2.11	(-0.02)
Wed 21st	0.94	(-0.01)	1.10	(-0.03)	1.40	(-0.05)	1.84	(-0.06)	2.13	(-0.04)
Tues 20th	0.95	(+0.04)	1.13	(+0.01)	1.45	(+0.02)	1.90	(+0.03)	2.17	(+0.01)
Mon 19th	0.91	(-0.02)	1.12	(+0.03)	1.43	(+0.03)	1.87	(+0.03)	2.16	(+0.03)
Fri 16th	0.93	(+0.01)	1.09	(same)	1.40	(-0.01)	1.84	(+0.01)	2.13	(+0.02)
Thurs 15th	0.92	(+0.01)	1.09	(+0.01)	1.41	(+0.03)	1.83	(+0.02)	2.11	(+0.01)
Wed 14th	0.91	(-0.04)	1.08	(-0.06)	1.38	(-0.04)	1.81	(-0.06)	2.10	(-0.05)
Tues 13th	0.95	(same)	1.13	(same)	1.44	(same)	1.87	(same)	2.15	(same)
Mon 12th	0.95	(-0.02)	1.13	(-0.03)	1.44	(-0.04)	1.87	(-0.04)	2.15	(-0.03)
Fri 9th	0.97	(same)	1.16	(+0.02)	1.48	(+0.03)	1.91	(+0.03)	2.18	(+0.02)

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 22nd	0.51	(same)	0.58	(same)	0.75	(same)	1.03	(same)
Wed 21st	0.51	(same)	0.58	(same)	0.75	(same)	1.03	(same)
Tues 20th	0.51	(same)	0.58	(same)	0.75	(same)	1.03	(same)
Mon 19th	0.51	(same)	0.58	(same)	0.75	(same)	1.03	(same)
Fri 16th	0.51	(same)	0.58	(same)	0.75	(same)	1.03	(same)
Thurs 15th	0.51	(same)	0.58	(same)	0.75	(same)	1.03	(same)
Wed 14th	0.51	(same)	0.58	(+0.01)	0.75	(same)	1.03	(-0.01)
Tues 13th	0.51	(same)	0.57	(same)	0.75	(same)	1.04	(same)
Mon 12th	0.51	(same)	0.57	(same)	0.75	(same)	1.04	(same)
Fri 9th	0.51	(same)	0.57	(-0.01)	0.75	(same)	1.04	(same)

Financial Markets – 9th October – 23rd October

Index	09/10/2015	This Week	% Change
FTSE 100	6,419.86	6,452.97	+0.51%
Dax	10,090.33	10,781.50	+6.85%
CAC 40	4,699.55	4,919.39	+4.68%

Index	09/10/2015	This Week	% Change
Dow Jones	17,083.49	17,594.19	+2.99%
S&P 500	2,017.39	2,052.51	+1.74%
Nikkei	18,438.67	18,825.30	+2.10%
Hang Seng	22,458.80	23,151.94	+0.03%
Shanghai Composite	3,183.15	3,412.43	+7.20%
Sydney	5,309.20	5,388.10	+1.48%

Gold

	Price	Change	%
Forex Gold Index $/oz	1171.55	+65.35	+5.90

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	1.34760	+0.04260	+3.16	1.43680	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.53560	+0.01820	+1.20	1.71520	1.44550