26th 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)

Bank and Building Societies

Barclays has been hit with a record £38million fine by the FCA for failing to keep its clients' assets separate from its own. The FCA said the bank's investment arm had put £16.5billion of clients' assets "at risk" between November 2007 and January 2012, though Barclays mitigated that it did not profit from the issue and no customers lost out. "Clients risked incurring extra costs, lengthy delays or losing their assets if Barclays had become insolvent," the FCA said, adding that safeguarding client assets was "key" to maintaining market confidence. Barclays lack of focus on the rules was unacceptable." The bank who actually reported the issue to the FCA, has accepted the finding. "Barclays has subsequently enhanced its systems to resolve these issues and to ensure we have the requisite processes in place. No client has suffered any loss as a consequence of this weakness in our processes which existed prior to January 2012," a spokesperson said. As per usual, Barclay's received the FCA's 30% discount for agreeing to settle at an early stage.

Housing / Mortgage Market

The Land Registry has said that last month annual property price growth accelerated to 8.4% in England and Wales, the highest rate of increase for nearly seven years. They added that said prices were up by 1% on July, with increases yet again driven by London. The figures don't reflect much of the anecdotal evidence of a housing market starting to cool. However, some areas, including Windsor, Maidenhead and South Yorkshire, all saw month-on-month falls. The average property price in England and Wales is now £177,824 compared to the peak of £181,383 in November 2007. The Land Registry said that in the last 12 months prices had risen by 21.6% in London, while the slowest rate of increase was 3% in the North East. The regional differences are worrying for many industry experts. "For prices to rise by nearly 3% in just one month alone shows the London market continues to defy gravity," said one analyst. "Some areas of the UK are looking dangerously overpriced, while others are still very much flat and even in the red."

A Building Societies Association and Money Advice Trust survey has claimed that over 25% of mortgage borrowers will be in financial trouble when the bank rate finally begins to rise. Around 39% of the 2.316 respondents said they would cut spending on holidays and eating out to cope with rate rises, whilst a fifth said they'd have to cut back on essentials like clothing and food. Over 50% think that the Bank Rate will be 2% or lower by mid-2017, despite the Governor of the Bank of England's warning that rates will rise gradually from its current 0.5% to 3%. The Building Societies Association, said: "Many consumers are only used to a low rate environment which will change and whilst most mortgage rates are not linked quite so directly to the base rate as they used to be, rates will rise as it increases. Clearly some of the actions borrowers say they would take may not be within their control, for example working additional hours. Our advice to those concerned about interest rate rises is to start thinking about how they will manage the increased costs." The Money Advice Trust, said: "Our message to borrowers is clear - interest rates will rise and that day is coming soon, so now is the time to prepare. Draw up a budget, speak to your lender, and if you do find yourself struggling to repay, seek free debt advice as early as possible."

The CML has reported that in 2013 the six biggest mortgage lenders have seen their share of lending dip for the fourth consecutive year. Last year, the top 6's market share of gross lending dropped from 76% in 2012 to 72%. Before the financial crisis hit, in 2006, the top 6 accounted for 61% of gross lending, and peaked at 86% in 2009 primarily as a result of smaller lenders exiting the market and other firms affected by "market consolidation". However, since 2009 the top 6 have seen their share eroded each year, down to 82% in 2010, 81% in 2011, 76% in 2012 and now 72% as of. The CML said: "Perhaps the most striking change shown by today's data is the shift in market concentration. In 2006, the top six lenders accounted for 61 per cent of total gross lending, but the exit of smaller lenders in the years immediately following this, together with a number of firms affected by market consolidation, led to increasing dominance by the big six. By 2009, those lenders undertook an estimated 86 per cent of all lending. Since then, the data clearly shows that competition is growing, both amongst the biggest lenders and across the market." Whilst Lloyds Banking Group (LBG) retained top spot (£35.5billion), with Nationwide in second place (£26.9billion), Santander moved up to third from fifth (£18.3billion), Barclays were in fourth (£16.9billion), HSBC slipped to fifth (£14.5billion) and RBS stayed sixth (£14.3billion). Lenders ranking outside the top 20 saw their total market share grow by 7%.

The CML said: "This supports our view that smaller lenders continue to have both the appetite and capacity to bring diversity and choice to a market that, at its low point in 2009, became heavily concentrated in the hands of a few large firms."

Figures from the British Bankers' Association (BBA) have shown a sharp cooling of the mortgage market in August as approvals plunging 9.4% year on-year. The data showed approvals in August were 64,190, down from the 70,859 in August 2013, with the overall value down 4% as well. Gross lending though was up 10.6% on the previous year. Purchase approvals were up slightly on August 2013 at 2% with the value up 5% to £6.5billion. Remortgage business continued to struggle as approvals dropped 20% to 17,678 last month, with the value also down 15% to £2.8billion compared to August 2013. Loans for other purposes (further advances, etc..) saw the biggest fall, as approvals dropped 34% year-on-year, and the value down 18% as well. Analysts said that the holiday was always a "bit choppy" and affected business, however the slump in remortgages remains a concern, especially with a rise on the bank rate looming large on the horizon. Some industry commentators also felt that the poor August showing was still part of the hangover from the introduction of the MMR in April. It has been interesting to see in September that a number of lenders have cut rates sharply, particularly some of the longer term fixes to try and generate business for the end of the year.

The BBA has also said that the amount of new borrowing through personal loans has outstripped repayments every month this year. They added that the consistent rise in this type of borrowing hasn't been seen since 2007. However, the reverse is true for overdrafts, where more has been repaid than taken out for much of the year. The figures show £175million in net borrowing in personal loans in August, with £346million in net borrowing via credit cards. "I was particularly struck that after years of decline, demand for unsecured personal loans is rising quite strongly again," said the BBA. "Those products are often used to finance bigger purchases such as cars or major home improvements - the sort of spending we often put off until we feel confident about our financial circumstances. "When customers feel more optimistic about the economic outlook they are much more likely to take on new borrowing."

Augusts figures from HMRC revealed that, (on a seasonally-adjusted basis), the number of homes sold per month dipped under 100,000 for the first time, and without the seasonal adjustment the figure was up slightly on July to 112,480. In August last year, the figure stood at 105,580.

The BBA, has also urged the Bank of England to exclude high-net-worth clients from its new LTI cap, which comes in from the 1st October. The cap forces lenders to do no more than 15% of new lending at 4.5 x income or above, irrespective of whether the case fits on affordability. Although the BBA "broadly supports" the cap on high-LTI lending, it says the new rules could negatively impact private banks, who typically serve high net worth clients where the ability to repay debt is based more on assets and income combined, rather than just income. The BBA said: "We have some serious concerns about what such legislation would mean for a small, but increasingly important part of our financial services industry – private banks and high net worth customers. These individuals typically borrow differently to most customers and have more intricate finances than most of us." The BBA is concerned that the move will unfairly penalize private banks and stifle competition. The added: "The BBA and policymakers want to see more competition in the banking industry. This measure could leave some private banks at a distinct disadvantage to their peers both domestically and internationally."

A survey by Principality Building Society has revealed that many borrowers don't know their current interest rate, nor how a rise in the Bank of England Base Rate would affect their monthly payment. Some 48% of respondents couldn't say with certainty what they paid for their mortgage, and 25% didn't know rising interest rates would be bad for them. Surprisingly 5% actually thought a Base Rate rise would be good news for mortgage borrowers. Principality said: "We are expecting a rise in the Bank of England Base Rate in the next few months but this is likely to be a very small rise occurring most probably in the first quarter of 2015. "In real terms, a 0.25% rise on the estimated average mortgage of £113,549 equates to around an extra £23.66 a month or less than £6 per week which should be manageable for the majority." The survey highlighted a basic knowledge of mortgage products was strong with 95% able to name their lender, 74% knew what they owed and 76% knew the date when their mortgage would be repaid, though just 36% knew their current loan-to-value. The most worrying statistic revealed was that one in five of those questioned stated that they do not change their mortgage.

The remortgage market is in enjoying a late summer sale as lenders seem to be vying for position, particularly in the longer term fixed rate arena. With many analysts & economists sounding the alarm over the first bank rate rise, borrowers can take advantage of cuts in rates, and at lower loan to values on the back of increased equity levels, thanks to the sharp rise in property prices. MMR has undoubtedly made it tougher to get a mortgage, but maybe not as touch as many people think, and more lenders are now coming out with more retention products (those for existing borrowers).

The Government is to launch a new scheme which will allow tenants to pay below-market rents for up to seven years, after which they will be given the opportunity to purchase the home. The latest scheme will be called 'Rent to Buy', and is where the Government will give housing associations and social landlords £400million in discounted loans to build up to 10,000 new properties between 2015 and 2018. These will mainly consist of one- and two-bedroom properties, with around 50% of the funding allocated to London. Rental prices for the new homes will be capped at 80% of local market value for a seven-year period. 'Rent to Buy' is being lined up to allow construction work to start from 2015.

UK

The ONS has said that government borrowing remained high in August, denting the chancellor's efforts to reduce the public deficit. Public sector net borrowing stood at £11.6billion last month, with total borrowing for this year at £45.4billion, which is around 6.2% higher than the same time a year earlier. However, because of changes to the methodology this month, direct comparisons are difficult The latest figures meet EU standards and include financial sector interventions that were left out in the old figures. On the old basis, the figure would have been £12.5billion, up from £11.5billion in August 2013. Economists have called described the recovery as "taxless", which has made it more difficult for the Chancellor to balance the books. This relates to the fact that receipts from income tax haven't been rising as much as the government, despite rises in employment, primarily due to the ongoing low wage growth. August continued this trend, with income tax receipts and social security payments growing just 1.6% from the previous year. For the tax year so far, the amount has been 0.6% lower than in the same period a year earlier. Also much of the drop in unemployment has been due to the rapid increase in self-employment, which means that the treasury doesn't know how much those people are earning, and therefore how much tax is likely to be collected until after the self-assessment tax returns in January 2015. What they do know is that self-employed people tend to earn less than salaried staff. "August's public finances data suggest that deficit reduction remains a grindingly slow process," said a senior economic adviser to the EY Item Club. "The chances of the chancellor enjoying a fiscal windfall from the strong economic recovery in time for the Autumn Statement are looking increasingly slim. Rather than being in a position to offer some tax or spending sweeteners to kick in before next May's general election, he may be faced with the unpalatable choice of announcing further fiscal tightening or a slippage of deficit reduction plans." The British Chambers of Commerce (BCC), said the deterioration in public finances was "disappointing" but not a huge surprise. "The sharp fall in oil and gas output since the financial crisis, and the problems facing the UK financial sector, have both created a major hole in the UK's ability to generate tax revenues, even when economic growth improves."

The outgoing head of the civil service has predicted another five years of government spending cuts, and warned that making the cuts would be "even harder". Sir Bob Kerslake said one of the difficulties was that "easier" savings had already been made, and the with the "sense of urgency" reduced, the need for cuts would be hard to explain to public sector staff. He added that it was clear that "under any government, we face up to a further five years of austerity in public sector spending". "The first five years have been challenging but the second five years are likely to prove even harder for three reasons. Firstly, the easier savings have already been made. Secondly, we are likely to be doing it against a background of a growing economy and greater competition for good staff. Thirdly, the sense of urgency that underpinned the first savings programme will be reduced." Sir Bob also said that: "In reality, the task is not yet complete. But this will be hard to explain to those in the public sector, including our own staff, who are looking for some relief."

Europe

The latest Markit Composite Purchasing Managers' Index (PMI) has shown that eurozone business growth cooled in September for a second consecutive month, and fell to its slowest pace since December. The index dropped to 52.3 from August's 52.5. (Readings above 50 indicates growth.) The modest growth in Germany was offset by stagnation elsewhere, particularly in France, where PMI fell to 49.1. Manufacturing fared worse than the service sector, with the PMI reading falling to 50.5, the lowest measure since July of last year. "The survey paints a picture of ongoing malaise in the eurozone economy," said Markit. "With growth of output and demand slowing, employment once again failed to show any meaningful increase. Such torpor meant prices continued to fall as firms fought for customers, which will inevitably heighten concerns that the region is facing deflation." Most analysts said that the ECB would be "disappointed" by the PMI numbers, which will do nothing to aid its attempts to ward off deflation. Business growth in France slumped to a three-year low, with both the manufacturing and service sectors suffering. "Anaemic demand continues to hold back the private sector," said Markit, "with further price cutting insufficient to prevent new orders from falling". Germanys service sector growth rebounded to a two-month high, though manufacturing growth recorded its slowest growth for 15 months. Markit also raised concerns about the crisis in Ukraine, and related Russian sanctions, which they warned could have further adverse effects on business in Europe. "The danger is that the ECB's efforts to stimulate the economy will prove ineffective in the face of such headwinds, which are exacerbating already-weak demand."

US

The US SecTreas has urged eurozone countries to "boost demand" in order to reduce unemployment and avoid deflation. "Europe is going to need to solve its problems and resolve differences it has internally," Mr Lew said, "but what's clear from the US experience is that the combination of taking action to boost demand in the short run and make structural changes for the long run is an important combination, and it shouldn't become a choice between the two. You really need to pursue both." Mr Lew also expressed concern about the political tensions between European countries, and the effect this may have on pushing through urgent policies. "The concern that I have is that if the efforts to boost demand are deferred for too long, there is a risk that the headwinds get stronger, and what I think Europe needs is more tailwinds in the economy," he cautioned.

The Dept of Commerce has revised US GDP upwards to an annual rate of 4.6% in Q2, much stronger than the previous estimate of 4.2%. The revision was due to larger rises in exports and business investment. The latest figures are the fastest since the end of 2011, and follow the 2.1% contraction in Q1. This fall in economic output was blamed on harsh winter weather, which discouraged shoppers and hampered manufacturing. The revised figures for Q2 showed exports increasing by 11.1% from Q1, while business spending rose by 9.7%. Growth in consumer spending, which accounts for more than two-thirds of US economic activity, was 2.5%, unchanged from the previous estimate. Analysts said the new figures suggested the US economy was in rude health. "The data signals an even stronger rebound from the decline seen in the first quarter, when extreme weather battered many parts of the economy," said Markit Economics. "However, the impressive gain in the second quarter looks to be far more than just a weather-related upturn, with evidence pointing to an underlying buoyant pace of economic expansion. Survey data in particular indicate that strong growth has persisted throughout the third quarter."

The Rest Of The World

Nothing this week

Markets, Swaps. Libor, Gold, Sterling.

UK Swap Rates

Date	2 Year		3 Year		5 Year		10 Year		25 Year	
Thurs 25th	1.28	(-0.02)	1.62	(-0.03)	2.05	(-0.03)	2.55	(-0.03)	2.96	(-0.01)
Wed 24th	1.30	(same)	1.65	(same)	2.08	(same)	2.58	(-0.01)	2.97	(-0.01)
Tues 23rd	1.30	(-0.01)	1.65	(-0.01)	2.08	(-0.02)	2.59	(-0.01)	2.98	(-0.02)
Mon 22nd	1.31	(-0.02)	1.66	(-0.01)	2.10	(-0.02)	2.60	(-0.03)	3.00	(-0.02)
Fri 19th	1.33	(+0.03)	1.67	(+0.03)	2.12	(+0.01)	2.63	(-0.01)	3.02	(-0.05)
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)

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 25th	0.51	(same)	0.56	(same)	0.72	(same)	1.07	(same)
Wed 24th	0.51	(same)	0.56	(-0.01)	0.72	(same)	1.07	(same)
Tues 23rd	0.51	(same)	0.57	(+0.01)	0.72	(same)	1.07	(same)
Mon 22nd	0.51	(same)	0.56	(-0.01)	0.72	(+0.01)	1.07	(+0.01)
Fri 19th	0.51	(same)	0.57	(same)	0.71	(same)	1.06	(+0.01)
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)

Financial Markets – 19th September – 26th September

Index	08/09/2014	This Week	% Change
FTSE 100	6,861.80	6,642.74	-3.19%
Dax	9,819.77	9,480.25	-3.46%
CAC 40	4,456.51	4,384.08	-0.02%

Index	19/09/2014	This Week	% Change
Dow Jones	17,265.99	17,023.41	-1.40%
S&P 500	2,001.57	1,972.34	-1.46%
Nikkei	16,321.17	16,229.86	-0.56%
Hang Seng	24,306.45	23,678.41	-2.58%
Shanghai Composite	2.329.45	2,347.72	+0.78%
Sydney	5,437.30	5,316.60	-2.22%

Gold

	Price	Change	%
Forex Gold Index $/oz	1222.25	-0.25	-0.02

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	1.28160	+0.01010	+0.79	1.27800	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.64300	-0.01630	-0.99	1.71520	1.44550