28th November 2014

Market Report

Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 4th December)
- ECB - Maintained at to 0.05% - (next decision 4th December)

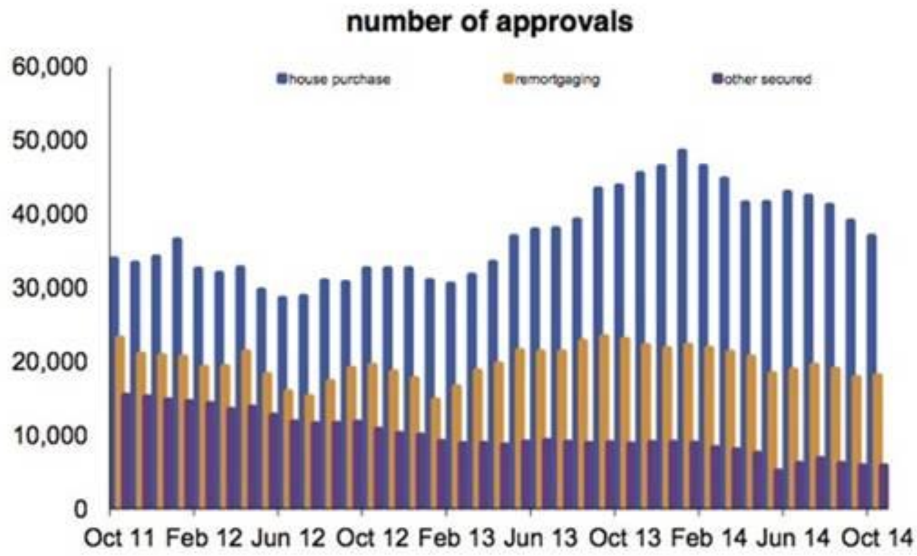
Bank of England chief economist, Andy Haldane has said that many of the world's major economies face a prolonged period of slow growth. Mr Haldane said that debt levels for households, companies and governments were still too high in mature economies like the UK's, and that the effects from 2008 global financial meltdown were still being felt. He added that many people were discouraged by that crisis, and are concerned that another is around the corner. "For the foreseeable future, those headwinds to growth will be with us. They'll be holding us back to a degree. One interpretation is just that people are scared. People are scarred by the risk of something else going wrong, and are seeking safety, safety almost at any price." All this "will tend to drag growth back a bit", he predicted. Mr Haldane said that many of the major economies faced common problems that would hold back growth, and this in turn would mean interest rates "in the future may be materially lower than they have been in the past." He also said that factors such as longer life spans of people living in western economies, rising inequality, and fears that modern countries are less innovative than previously, would all potentially impact on growth.

Bank and Building Societies

Nothing this week.

Housing / Mortgage Market

The British Bankers Association (BBA) has reported that the number of purchase mortgages granted by the banks has dropped by 16% over the last year, offering further evidence of slowdown in the housing market. Last month the banks approved 37,076 for home-buyers, the lowest figure for 17 months, with overall value also down 13% to just over £6billion. The figures from the BBA show that mortgage approvals peaked at 48,649 in January this year. In total, there were 19.4% fewer approvals in October at 61,097, down from the 75,849 approved in October 2013, although remortgage approvals wee up slightly 18,143 in October from September's 17,867. Gross lending was £10.5billion in October, up from £10.2billion a year earlier, while net lending increased from +£355million to +£861million. The BBA said: "Today's figures suggest that the cooling of the property market has continued in recent weeks." Many industry analysts and commentators have blamed April's implementation of the Mortgage Market Review (MMR) for the sharp drop in approvals. One lender commented: "Stricter lending criteria as a result of the implementation of MMR is likely to be a significant factor in the lower levels of mortgage approvals in October. A level of uncertainty has entered the market recently, with lenders reviewing their interest rate stress tests and the Bank of England delaying a rise in interest rates. As the prospect of a base rate rise is pushed further back, people are likely to feel less need to remortgage in the short-term, as evidenced by a fall in remortgaging of 21% compared to the same month last year." "The BBA data adds to now pretty widespread and compelling evidence that the housing market has come well off the boil," said one economist, though some experts are forecasting that mortgage lending will soon return to growth. "With mortgage rates falling to new record lows, the economy set for robust growth and uncertainty over leverage ratios lifting, conditions for a gradual recovery in lending are favourable," said Capital Economics.



Halifax have issued their predictions for property price inflation for 2015 to between 3% - 5%, which represents significant slowdown on the current rate seen this year. They also predict that a rise in the bank rate next year would weaken house prices, and that uncertainty over the general election in May is already having an effect. Particularly at risk is the £2million plus market, after the Labour Party's discussions over the introduction of a "mansion tax." Halifax's chief economist, said demand for housing would still be supported by continuing economic growth of around 3% a year into 2015. "Average earnings also appear set to rise more quickly than inflation next year, with the first gain in 'real' earnings for several years stimulating demand," he said. Also hovering over the property price inflation 'crystal ball' was IHS Global Insight predicting rises of 5% next year, Capital Economics with a 4% increase, while the Centre for Economics and Business Research (CEBR) is bucking the trend and saying property prices will fall by 0.8%.

Nationwide has revealed that its own mortgage lending fell by almost £1billion over the last year, with £13.1billion in the six months to September, which is a drop of £900million on the same period in 2013. However, pre-tax profits have more than doubled to £598million thanks to its increased share of the current account market. Despite the growth in competition in the retail banking arena, Nationwide said it was confident of remaining a top three provider of mortgages and savings products, and has an 11.9% share of the mortgage market and 10.6% of the savings stock. The core tier 1 ratio (a key measure of financial health) is now up to 17.6%, which Nationwide said underlined its position as a safe and secure financial services provider.

Nationwide has also reported that the annual pace of property price growth is at its slowest for 11 months. They said that house price inflation slipped to 8.5% annually in November, down from 9.0% in October. On a monthly basis, prices rose by 0.3% in November compared to 0.5% in October, with the average property price now £189,388. "The annual pace of house price growth continued to soften in November, falling from 9.0% in October to 8.5%, marking the third consecutive month where annual growth has moderated," said Nationwide's chief economist."Housing market activity levels have remained relatively weak in recent months," he added. Nationwide said there seemed to be "something of a disconnect" between house price growth and economic indicators in the rest of the UK economy. "In particular, the labour market has continued to improve, with employment rising strongly and the unemployment rate falling sharply in recent months," the lender said. "Moreover, indicators of consumer sentiment remain elevated, where healthy rates of retail sales growth and new car registrations also suggest that households are feeling more confident." House price inflation is expected to continue to soften in the short term, but should pick back up in the longer term if the economy remains in good shape and mortgage rates do not rise sharply, they added.

However, the Land Registry said that property price inflation in England and Wales continued to increase in the year to October, with an annual increase of 7.7% in England and Wales, up from 7.2% in September. Prices showed a monthly rise of 0.1%. Prices in London are still going up quicker than anywhere else, by 18.6% in the year to October, whilst Wales reported the smallest increase, of 2%, followed by the north-east, where prices rose by just 2.7% over the year. The difference between the Nationwide and Land Registry can be partly explained by the fact that the Land Registry includes cash sales, which can account for a third of all sales - and probably more in expensive areas such as London. Land Registry figures also exclude Scotland and Northern Ireland, where prices have risen more slowly than the national average.

The Intermediary Mortgage Lenders Association (IMLA) has claimed that home buyers over the age of 40 are increasingly being "frozen out" of mortgages. The industry body is warning that the new rules introduced by the FCA's Mortgage Market Review (MMR) have caused lenders to restrict loans to anyone who will still be paying off their mortgage by the time they retire. They say this is an issue as many people can't afford to buy a home until they are in their 40's or even 50's, and that with a standard 25 year term, meaning a 45 year-old borrower would be 70 before the loan was paid off. IMLA claim that the MMR rules are preventing them offering mortgages to anyone who will retire before the loan is repaid, and is causing them "causing real concern". "To avoid a situation where regulation brings about the extinction of mortgage terms that stretch into retirement, we need clarity and confirmation about where the boundaries of responsible lending truly lie," said IMLA (which represents the 24 lenders) and urged the FCA to tackle the issue in its review of MMR early in 2015.

Rightmove has reported that vendors dropped their asking prices in November to try and attract the scarce winter buyers, as high prices and the MMR have dented buyer demand. Average asking prices dropped 1.7% to £267,127 in November, though the annual average asking price us still up 8.5%. Rightmove says sellers are struggling to compete over the quieter winter months, as previously soaring property prices along with the tougher affordability criteria as a result of the MMR have helped to reduce demand. Rightmove said: "Selling is more difficult than earlier in the year although the mini-boom experienced by much of the country has hit the Pause rather than the Stop button. Underlying demand remains strong but has been muted by higher prices stretching affordability at the same time as the ability to borrow more to fund those higher prices has been curtailed by tighter lending criteria. After an active year it's a sensible pause and, with the winter approaching, sellers are hoping a cheaper asking price may spur those scarcer buyers into action." L&G Mortgage Club commented: "Following the rapid house-price increases at the beginning of the year, we have seen a slowdown in the rate of growth over the autumn. Although this may feel like bad news to some homeowners, it is important to look at where the market was a year ago. We have seen house prices increase across most parts of the country and it is better in the long term for house prices to rise in line with inflation rather than increase very rapidly each month."

UK

The CBI has said that optimism among companies in the services sector is at its lowest for 21 months. Their latest survey of the sector said that firms were expecting to see steady growth over the next three months, with employment and investment also forecast to rise. However, tensions in Middle East, eurozone GDP worries, and skill shortages had all hit optimism about the future. The drop in optimism is a concern as the services sector represents more than 75% of the country's GDP. The CBI added that for the three months to November, business and professional services firms (marketing, accountancy companies, etc..) reported that volumes of growth were firm, but below expectations. In consumer services (including hotels, restaurants, and leisure businesses) growth ticked up and staff recruitment also rose. However, both business services and consumer services said that that optimism was at its lowest since February 2013, and only three of the nine sub-sectors within the services sector were anticipating growth over the next quarter. The CBI said: "Growth across the services sector is expected to continue into the New Year. And it's good to see investment spending on IT at near record levels. But skills shortages are starting to bite, putting more of a break on investment and future growth in consumer services."

The ONS has reported a surprise fall in business investment last quarter, although consumer spending remained strong. The ONS said business investment was 0.7% lower in Q3 from Q2, though consumer spending grew by 0.8% in the quarter. During Q2 business investment grew by 3.3% - its fastest pace for in nine years, however Q3's drop slowed the annual pace of growth to 6.3% from 11%. EEF, the manufacturers' organisation, said: "While business investment posted a bit of a dip, this isn't yet cause for concern as surveys of intentions across the private sector seem to be holding." Some economists felt that the drop could be "a sign that companies are adopting a more cautious approach in the face of increased global growth concerns (particularly weakness in the eurozone) and mounting political uncertainty in the UK as the 2015 general election looms". "It is important for both balanced, sustainable UK growth and for improving productivity that that business investment holds up well going forward," one added.

The ONS has also confirmed that the economy grew by 0.7% in Q3, which is unchanged from its initial estimate a month ago. They also confirmed that the economy grew by 3% compared with the same quarter in 2013. This is the last snapshot of the UK economy before the government publishes its Autumn Statement next week.

Europe

Eurostat has revealed that eurozone inflation fell to 0.3% in November, down from 0.4% in October, which has done nothing to quell fears of deflation for the 18-nation bloc. The statistics agency said that the rate was pulled down by lower energy prices. The fear among policymakers is that if deflation takes hold, consumers and companies will delay purchases in the hope prices will fall further. Inflation hasn't been at the ECB's target level of close to, but below 2% since the start of 2013 and has been falling since a 3% peak in late 2011. Eurostat said energy prices fell 2.5% from October and by 1.1% on an annual basis. Core inflation, stripping out energy and food prices, was 0.7%, unchanged from October.

Also from Eurostat is news that eurozone unemployment remained at 11.5% in October, unchanged from September, despite the number of unemployed actually rising by 60,000, the biggest monthly jump since January 2013. In Germany, the October rate fell slightly to 4.9% from the month before, and was unchanged in France at 10.5%, however in the eurozone's third largest economy, Italy, the rate reached a new record, jumping to 13.2% from a revised figure of 12.9% in September. Economists felt that the inflation and jobless data "gives the ECB yet another nudge to take urgent further action to revive the recovery and tackle the threat of deflation". One economist commented that with energy prices expected to fall further over the coming months, "we now expect the headline inflation rate to drop below zero at least briefly over the next six months and there is a clear danger of a more prolonged bout of falling prices".

The Organisation for Economic Co-operation and Development (OECD) has claimed that the euro area may be stuck in persistent stagnation, with insufficient policy stimulus potentially undermining growth, and risking deflation in the zone. Eurozone GDP is still below its pre-crisis peak, compared to the US and UK, which have surpassed theirs. The OECD said that growth in the euro area "slumped as 2014 wore on", and "will remain weak because of still-high public and private debt, tight credit conditions and high unemployment". In addition, "the crisis-related hit to potential output has been significant" in the euro area, with investor confidence knocked by "geopolitical risks" in Eastern Europe, it said. The OECD urged the ECB to introduce "additional stimulus measures to keep long-term interest rates constant over the coming two years" by stepping up asset purchases. The OECD also revised its inflation forecasts to 0.6% for 2015 and 1.0% for 2016, which are slightly more pessimistic than the EU's own forecasts, and a long way from the ECB's target of just below 2%.

The Federal Statistical Office has said that Germany's unemployment rate has reached a record low, though slower inflation is fuelling concerns over deflation. The revised October unemployment rate went from 6.7% to 6.6%, while November's figure was also 6.6%. However, German inflation has also fallen to its lowest rate in nearly five years in November at 0.5%, down from 0.7% on October. Analysts are saying that record employment, rising wages and low interest rates are helping to prop up domestic demand in Germany. "Germany's buoyant labour market continues to underpin wage growth and thus private consumption, in combination with very low inflation," said one economist. Inflation remains weak in the eurozone and economists say the rate in Germany could fall further. "Looking ahead, the recent drop in energy prices - if sustained and if not offset by strong currency weakening - could push German headline inflation further down," said one analyst. Some economists feel that low German inflation may put further pressure on the ECB to introduce further stimulates measures to boost the eurozone economy. "With inflation set to remain far below target in the eurozone's largest and arguably strongest economy, the ECB will remain under intense pressure to provide more policy support," said one.

US

The Bureau of Economic Analysis has said that the US economy grew much faster in Q3 than first thought. GDP expanded at an annualised rate of 3.9% in Q3, up from the initial 3.5% estimate. The rise, followed a strong Q2, which has given the US economy its strongest two consecutive quarters of growth for a decade. Consumer spending was the biggest driver of the raised estimate, which was up by 2.2%, and significantly higher than the initial calculation of 1.8%. Consumer spending is important as it accounts for 70% of US GDP. The data would suggest the US has shrugged off the slow start to the year when heavy snow saw a contraction in Q1. "The question of whether the economy is accelerating or will accelerate is no longer a question; we can say somewhat definitively that the economy has already accelerated," said one analyst. The OECD is also predicting that US GDP will be 2.2% in 2014, and 3.1% in 2015.

The S&P/Case Shiller index has shown that US property prices rose unexpectedly in September and was up 4.9% year-on-year. The index measures single-family home prices in 20 cities, and showed that prices were up 0.3% month-on-month. "With the economy looking better than a year ago, the housing outlook for 2015 is stable to slightly better," said S&P. The overall good news has led some economists to think that the Fed could raise rates as early as March next year.

The Rest Of The World

The Markit Global Business Outlook Survey has reported that global business confidence slipped to five-year low in October, according to a survey of 6,100 companies. The number of firms that expect business activity to be higher in the year ahead exceeded those that expected a decline by about 28%, and that net balance was lower than 39% in June and the lowest since the survey began in 2009. Hiring and investment plans also dipped to post financial crisis lows. "Clouds are gathering over the global economic outlook, presenting the darkest picture seen since the global financial crisis," said Markit. The decline in optimism among businesses was due to a growing list of worries, according to the report, including: Fears of a renewed downturn in the eurozone, possible higher interest rates in the UK and US next year, plus geo-political risks from crises in Ukraine and the Middle East, which are all denting business confidence across the globe. "A key factor that has held back economic growth in recent years has been the disappointing performance of major emerging market economies, and this looks set to continue, and perhaps even intensify, over the coming year," Mr Williamson added, citing that business optimism among the BRIC countries had sunk to its lowest since the financial crisis. One surprise was a downturn in the US, where optimism hit a new survey low as the service sector saw a "dramatic" decline. "US growth therefore looks likely to have peaked over the summer months, with a slowing trend signalled for coming months," said Markit.

The OECD has said that Japan will grow less than previously expected over the next two years. The GDP forecast for 2014 was slashed from almost 1.2% to 0.4%, while 2015 estimate was cut from 1.25% to 0.8%. The OECD's said Japan was "arguably in an advanced stage" of economic stagnation, but said that the euro area may also be falling into a "stagnation trap".

UK Swap Rates

Markets, Swaps. Libor, Gold, Sterling.

Date	2 Year		3 Year		5 Year		10 Year		25 Year	
Thurs 27th	0.96	(-0.02)	1.18	(-0.02)	1.51	(-0.04)	2.01	(-0.05)	2.48	(-0.05)
Wed 26th	0.98	(-0.01)	1.20	(-0.02)	1.55	(-0.02)	2.06	(-0.03)	2.53	(-0.04)
Tues 25th	0.99	(-0.02)	1.22	(-0.03)	1.57	(-0.04)	2.09	(-0.05)	2.57	(-0.04)
Mon 24th	1.01	(+0.01)	1.25	(+0.01)	1.61	(same)	2.14	(+0.01)	2.61	(-0.01)
Fri 21st	1.00	(-0.04)	1.24	(-0.06)	1.61	(-0.08)	2.13	(-0.09)	2.62	(-0.07)
Thurs 20th	1.04	(same)	1.30	(same)	1.69	(same)	2.22	(same)	2.69	(same)
Wed 19th	1.04	(+0.02)	1.30	(+0.02)	1.69	(+0.02)	2.22	(+0.01)	2.69	(same)
Tues 18th	1.02	(same)	1.28	(+0.01)	1.67	(+0.01)	2.21	(+0.02)	2.69	(+0.02)
Mon 17th	1.02	(-0.02)	1.27	(-0.05)	1.66	(-0.06)	2.19	(-0.06)	2.67	(-0.04)
Fri 14th	1.04	(same)	1.32	(same)	1.72	(same)	2.25	(same)	2.71	(same)

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 27th	0.50	(same)	0.56	(same)	0.68	(same)	0.98	(same)
Wed 26th	0.50	(same)	0.56	(same)	0.68	(same)	0.98	(same)
Tues 25th	0.50	(same)	0.56	(same)	0.68	(same)	0.98	(same)
Mon 24th	0.50	(same)	0.56	(same)	0.68	(-0.01)	0.98	(same)
Fri 21st	0.50	(same)	0.56	(same)	0.69	(+0.01)	0.98	(same)
Thurs 20th	0.50	(-0.01)	0.56	(same)	0.68	(same)	0.98	(same)
Wed 19th	0.51	(same)	0.56	(same)	0.68	(same)	0.98	(same)
Tues 18th	0.51	(same)	0.56	(same)	0.68	(same)	0.98	(same)
Mon 17th	0.51	(+0.01)	0.56	(same)	0.68	(same)	0.98	(-0.01)
Fri 14th	0.50	(same)	0.56	(same)	0.68	(-0.01)	0.99	(-0.01)

Financial Markets – 21st November – 28th November

Index	21/11/2014	This Week	% Change
FTSE 100	6,727.13	6,690.19	-0.55%
Dax	9,638.44	9,940.89	+3.14%
CAC 40	4,295.92	4,367.93	+1.68%

Index	21/11/2014	This Week	% Change
Dow Jones	17,719.00	17,827.75	+0.61%
S&P 500	2,052.75	2,072.83	+0.98%
Nikkei	17,357.51	17,459.85	+0.59%
Hang Seng	23,437.12	23,987.45	+2.35%
Shanghai Composite	2.478.82	2,682.83	+8.23%
Sydney	5.292.10	5,298.10	+0.11%

Gold

	Price	Change	%
Forex Gold Index $/oz	1184.25	-19.25	-1.60

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	1.25840	-0.00520	-0.41	1.27800	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.57100	+0.00560	+0.36	1.71520	1.44550