2nd April 2015

Market Report

Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 9th April)
- ECB - Maintained at to 0.05% - (next decision 2nd April)

The Bank of England has revealed plans to test the biggest banks' reactions to a global economic crisis. The central bank said stress tests for banks will include for the first time assessments of how lenders' leverage and capital ratio would emerge from an economic crisis. The tests are designed to make sure the banking system can "absorb rather than amplify" severe shocks and continue to provide financial services to the real economy. In this years test, lenders need to meet up to 25% of Tier 1 capital using relevant additional Tier 1 instruments, and as with last years test, a banks capital ratio shouldn't fall below the 4.5% Common Equity Tier 1 and 3 per cent Tier 1 leverage ratio thresholds, or they would need to strengthen their capital position. However, this year the test will have some qualitative differences, looking at financial vulnerability on a global scenario rather than only looking at domestic risks. Among these global risks, are the impact of a collapse in Chinese growth, a deep eurozone recession and a liquidity crunch in emerging markets. Bank of England governor Mark Carney said: "By assessing the resilience of the UK banking system against a major external shock, we will improve further our ability to identify vulnerabilities and we will ensure that banks have plans in place to address a wider range of possible stresses." The year's tests will also look at the deflationary macroeconomic environment and will put more emphasis on exploring risks stemming from UK banks' domestic corporate exposures. Mr Carney adds: "As a forward looking regulator our job is never complete. This year's stress tests will build on last year's work and advance our medium-term stress testing framework." The bank is to publish the results of the stress tests alongside the Financial Stability Report in December.

Bank and Building Societies

Nothing this week.

Housing / Mortgage Market

The Bank of England has reported that the number of approvals for home purchases reached a six-month high in February. The latest figures are an improvement on January which failed to beat the average of 61,666 of the previous six months, reaching just 60,786. Remortgage approvals rose to 32,099, beating the six-month average of 31,687. However, year-on-year approvals were down 11% in February with 102,929 loans approved, down from the 115,725 in February 2013, along with gross lending also down 8%, from £17.6billion to £16.2billion. Purchase approvals dropped 11.6% year-on-year, from 69,893 to 61,760, and remortgages were also down 4.5% from 33,620 to 32,099. Loans for other purposes, including further advances, saw the biggest drop, down 25.7% from 12,212 to 9,070. Capital Economics said: "A key reason for the subdued level of lending is a shortage of homes for sale. The new sales instructions balance has now been negative in 11 of the past 14 months, constraining the recovery in housing market activity. But as greater confidence in the economy encourages more households to move, that should help activity levels and mortgage lending to rise further over the coming months." Despite the year-on-year fall, many industry commentators, preferred to concentrate on the six month high, saying the figures showed a 'consistently improving mortgage market', adding that: "The lack of inflation, and talk of an interest rate cut rather than a rise, could have an impact on people's inclination to take on new debt. There are certainly plenty of cheap mortgage rates to tempt them."

The National Association of Estate Agents (NAEA)has reported that 30% of the total number of properties sold in February went to first time buyers. Their Housing Market Report said this number was the highest proportion of sales since September 2014. The report also showed demand for property was up, with 366 house hunters registered per NAEA member branch, up from 353 in January. However, worryingly February's supply was down at 43 properties for sale per branch compared to 44 in January, while the total number of sales agreed remained constant at eight sales per NAEA member branch. The NAEA said: "It's clear from the findings in the report that things are starting to ease for first-time buyers, which could be down to reduced property prices or more accessible funding, especially following December's Stamp Duty reforms. We will all be waiting with bated breath to see if the first-time buyer figures increase following the new Help to Buy ISA, and whether we see real momentum in the market. It still remains notoriously hard to get cut-through in the property market, especially for first time buyers, so any green shoots are encouraging." Interestingly, 46% of NAEA members say they've seen the market cooling in the run up to the election, 27% saying the election will have the biggest impact on the housing market this year. Also 45% of agents think the Conservative's pledge to build 200,000 more homes will have the best impact on the housing market, whilst 57% say that Labour's proposed "mansion tax" would have a negative impact on the housing market.

UK

The ONS has said that productivity of the UK's workforce remains slightly lower than in 2007, marking an "unprecedented absence" of growth since World War Two. Productivity fell 0.2% in the Q4 of 2014, which left productivity "little changed" on 2013. The Bank of England remains concerned about productivity levels. The ONS said labour unit costs (known as employee benefits, which include wages, pension contributions, bonuses and other benefits such as private healthcare) had increased by only 1% a year over the last five years. While the UK now has historically high levels of employment, the Bank of England has suggested many people may be underemployed, and estimates that the economy may have as much as 1.5% spare capacity. This means the economy is performing below its potential because of the lack of productivity in the workplace and underinvestment by business, however, an alternative theory is that in the years since the financial crisis businesses refrained from making staff redundant where possible, while freezing or cutting salaries instead. The Bank of England expects that as the economy recovers, more businesses will begin to reinvest in expansion, which in turn should lead to improved productivity.

The Markit/CIPS purchasing managers' index (PMI) for March has shown activity in the manufacturing sector reaching an eight-month high. The index went up to 54.4, up from 54 in February. Readings above 50 indicate growth. Manufacturing production grew at its fastest pace in nine months, helped by the strongest increase in new business since July 2014. Markit, said: "The UK manufacturing sector has continued its bright start to 2015, with March seeing the headline PMI rise to an eight-month high. The sector is on course for output growth ranging around 0.6% over Q1 as a whole, a positive contribution to broader economic expansion and its best performance since the first half of last year. Continued job creation of around 5,000 new manufacturing employees a month also provides a decent bellwether that the labour market is still strengthening."

The ONS has revised the 2014 GDP figure upwards as Q4's figure was 0.6% rather than the original 0.5%. The increase means GDP for last year was 2.8%, an increase on the previous estimate of 2.6%. The new rate is the highest pace of annual growth since 2006, when the economy grew by 3%, as an expansion in both production and services as well as household spending helped to drive the increase. There was more good news as the ONS also said that the UK's current account deficit (the gap between the income paid to, and received from, the rest of the world) narrowed in Q4. The Q4 deficit was £25.3billion, down from Q3's record-high of £27.7billion. Unfortunately, for the year as a whole, the deficit widened to 5.5% of GDP, marking the largest annual deficit since records began in 1948. Economists felt that the deficit largely reflected weakness in UK overseas earnings "which may turn around if the eurozone recovery heats up. Still, regardless of the cause, funding a deficit of this size makes the UK vulnerable in a year when political uncertainty is relatively high."

More from the ONS who have said that the financial well-being of UK households improved last year, though admitting that overall it's not much better than it was five years ago. Using a series of new measures, to quantify economic well-being, as well as economic growth, Real Household Disposable Income (RHDI) per head increased by 1.9% in the year to December 2014, which is only up by 0.2% on Q2 of 2010. RHDI (records household income after tax, & adjusted for inflation) is the measure favoured by the government. The ONS also reported a rise in households' optimism of their finances. In December 2014, the survey showed a balance of -5.2, meaning the number of people who thought their financial situation was getting worse outweighed the number seeing an improvement, however this was an improvement on the previous years balance of -7.6.

Markit and the Chartered Institute of Procurement and Supply have reported that growth in the construction industry slowed in March, as worries over who will be in government after May's elections hit expansion. However, confidence rose to a nine-year high, as the construction purchasing managers' index fell to 57.8 last month after a four-month high of 60.1 in February. (Figures above 50 indicates growth.) Low growth was most evident in the civil engineering sector, as builders delay decisions until the new government emerges. Employment in the sector also rose at the slowest rate in more than a year. Shortages of materials and subcontractors pushed up prices too.

Europe

The EU's statistics office Eurostat, has said that deflation in the eurozone eased back in March as the unemployment rate dipped slightly in February. The latest figures show that consumer prices fell by 0.1% in March from a year earlier, as against -0.3% in February. The previous downward pressure on prices came mainly from the drop in energy costs, which now appear to be levelling out. However, despite the headline rate rising to -0.1%, core annual inflation (excludes energy and food prices) continued to fall, dropping to 0.6% from 0.7% in February. The unemployment rate in the eurozone has also fallen from 11.4% to 11.3% in February. The total decline in the number of eurozone jobless in the three months to February is the largest three-month fall since the three months to April 2007. The figures would indicate that businesses are becoming more willing to step up hiring, on the back of the fall in oil prices, a markedly weaker euro and the major stimulus from the ECB. Capital Economics commented: "The latest data on eurozone inflation and unemployment do little to diminish the danger of a prolonged period of deflation in the currency union. The increase was driven entirely by higher food and energy inflation, no doubt partly reflecting the drop in the euro during the month."

Markit's purchasing managers' index (PMI) for the manufacturing sector, has shown output and jobs are picking up in the eurozone thanks to the weaker euro. The index for last month rose to a 10-month high of 52.2 in March as eurozone factories benefited from the weaker currency. It's the 23rd consecutive month that the index has been over 50, indicating growth rather than contraction, with firms creating jobs at the quickest pace for three and a half years. "March saw the sharpest increase in new export orders since April 2014. Companies reported that the weaker euro was the main factor driving new export orders higher," said Markit's chief economist. "This is still a fledgling recovery, however, and the overall rate of expansion remains only modest." Ireland and Spain led the way with PMI figures of 56.8 and 54.3 respectively, while growth also improved in Germany, Italy and the Netherlands, however PMI readings in France, Greece and Austria remained below 50.

US

Nothing this week.

The Rest Of The World

The official Purchasing Managers' Index (PMI) has revealed that activity in China's factory sector picked up unexpectedly in March. The index edged up to 50.1 from February's 49.9, and beat economists' forecasts of 49.7. (Readings over 50 points shows an expansion in the sector). China has cut interest rates twice since November, plus introducing other measures to try to boost economic activity. However, the final HSBC/Markit PMI which is a private survey of the sector presented more pessimistic outlook, which indicated that activity had contracted this month. Their index was 49.6, slightly higher than a preliminary "flash" reading of 49.2 released earlier in March. Economists said the surveys showed the persistent weakness in the world's second-largest economy. On top of the manufacturing data, figures on China's services industry also added to concerns about slowing growth, with the official services PMI cooling in March, hovering around one-year lows. The service sector, which was expanding strongly last year while manufacturing struggled, accounted for over 48% of the economy in 2014, up from about 47% in 2013.

UK Swap Rates

Markets, Swaps. Libor, Gold, Sterling

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Wed 1st	0.88	(-0.03)	1.06	(-0.02)	1.33	(-0.02)	1.66	(-0.02)	1.91	(-0.02)
Tues 31st	0.91	(+0.02)	1.08	(+0.01)	1.35	(same)	1.68	(-0.01)	1.93	(same)
Mon 30th	0.89	(+0.01)	1.07	(+0.02)	1.35	(+0.03)	1.69	(+0.04)	1.93	(+0.03)
Fri 27th	0.88	(-0.02)	1.05	(-0.05)	1.32	(-0.07)	1.65	(-0.06)	1.90	(-0.06)
Thurs 26th	0.90	(+0.04)	1.10	(+0.07)	1.39	(+0.10)	1.71	(+0.09)	1.96	(+0.08)
Wed 25th	0.86	(+0.01)	1.03	(same)	1.29	(same)	1.62	(+0.02)	1.88	(+0.02)
Tues 24th	0.85	(-0.02)	1.03	(-0.01)	1.29	(-0.01)	1.60	(-0.01)	1.86	(-0.01)
Mon 23rd	0.87	(-0.01)	1.04	(-0.02)	1.30	(-0.01)	1.61	(-0.01)	1.88	(same)
Fri 20th	0.88	(-0.01)	1.06	(+0.01)	1.31	(-0.01)	1.62	(-0.02)	1.88	(-0.03)
Thurs 19th	0.89	(-0.04)	1.05	(-0.08)	1.32	(-0.07)	1.64	(-0.08)	1.91	(-0.08)

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Wed 1st	0.50	(same)	0.57	(same)	0.68	(same)	0.97	(same)
Tues 31st	0.50	(same)	0.57	(same)	0.68	(same)	0.97	(same)
Mon 30th	0.50	(same)	0.57	(same)	0.68	(same)	0.97	(same)
Fri 27th	0.50	(same)	0.57	(+0.01)	0.68	(same)	0.97	(+0.01)
Thurs 26th	0.50	(same)	0.56	(same)	0.68	(same)	0.96	(same)
Wed 25th	0.50	(same)	0.56	(same)	0.68	(same)	0.96	(same)
Tues 24th	0.50	(-0.01)	0.56	(-0.01)	0.68	(same)	0.96	(-0.01)
Mon 23rd	0.51	(same)	0.57	(same)	0.68	(same)	0.97	(same)
Fri 20th	0.51	(+0.01)	0.57	(+0.01)	0.68	(same)	0.97	(same)
Thurs 19th	0.50	(-0.01)	0.56	(same)	0.68	(same)	0.97	(same)

Financial Markets – 27th March – 2nd April

Index	27/03/2015	This Week	% Change
FTSE 100	6,855.80	6,835.80	-0.29%
Dax	11,832.66	11,984.90	+1.29%
CAC 40	5,007.99	5,080.06	+1.44%

Index	27/03/2015	This Week	% Change
Dow Jones	17,692.98	17,804.15	+0.63%
S&P 500	2,056.15	2,071.44	+0.74%
Nikkei	19,285.63	19,312.79	+0.14%
Hang Seng	24,486.20	25,275.64	+3.22%
Shanghai Composite	3,691.10	3,825.78	+3.65%
Sydney	5,888.90	5,869.70	-0.33%

Gold

	Price	Change	%
Forex Gold Index $/oz	1198.50	+00.50	+0.04

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	1.36280	-0.00910	-0.51	1.37390	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.48280	-0.00800	-0.54	1.71520	1.44550