2nd October 2015

Market Report

Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 8th October)
- ECB - Maintained at to 0.05% - (next decision 8th October)

Bank and Building Societies

Nothing this week

Housing / Mortgage Market

The Financial Conduct Authority (FCA) has surprisingly admitted there is no official definition for "consumer buy to let", the term invented under the upcoming Mortgage Credit Directive (MCD). The FCA's mortgage technical specialist Lorna O'Brien, said although there weren't any specific definitions, there were a number of scenarios that described when borrowers could fall under this category set out in their helpful fact sheets. The MCD describes a consumer buy-to-let mortgage contract as "that which is not entered into by the borrower wholly or predominantly for the purposes of a business carried on, or intended to be carried on, by the borrower." Many industry commentators are concerned that the new legislation will only be for a small part of the buy-to-let sector. When asked much a lender could rely on a declaration signed by the borrower, confirming that they were acting wholly for business purposes when purchasing a buy-to-let property. The FCA as usual hedged by saying that lenders could rely on this except where there is a reasonable cause to suspect that this is not the case. Ms O'Brien said: "Firms will need to decide what level of comfort they want. I don't think there's any intention for you to take extra due diligence to see actually what customers up to, but if there is information in the application that makes you doubt the borrower's intentions then there could be reason to act." Clear as mud then!

Research by Iress has revealed that intermediaries have provided mutual lenders 82% of their mortgage business, an increase from the 63% in 2014. The increase is thanks mainly to the launch of the Mortgage Market Review (MMR) which removed the non-advised sale option most commonly used by the banks and building societies, pushing lenders to providing borrowers with full mortgage advice. The regulatory burden of advice combined with the increased cost of putting staff through CeMap meant many lenders moved to rely more on intermediaries. The research also showed that intermediaries are more better at getting it right first time, with a completion rate of 84%, compared to 81% completion rate through the telephony channel, 76% in-branch and 58% completion rate for online applications.

Nationwide's September property price survey has shown that the gap between London and the rest of the UK has reached another record high. The average home in London is now worth around three and a half times that in the north. Nationwide said that in the three months to the end of September, prices in London rose by 10.6%, while in the north west and Scotland they actually fell. Overall property prices grew at an annual rate of 3.8%, compared with 3.2% in August, while on a monthly basis the increase was 0.5%. It means that the average price of a property now stands at £195,585 with the average price for a property in London now 127% more than in the UK as a whole. "The gap between London house prices and the rest of the UK has continued to reach new highs," said Nationwide's chief economist. "The price of a typical home in the capital - £443,399 on our measure - is more than double the UK aggregate." In Scotland, prices were down 1.3% in the year to September, while the north west was down by 0.6%. The cost of an average home in the south (incl the South West and East Anglia) rose by 8% in the same period, whilst in the northern (incl the Midlands, Yorkshire and Humberside) prices were up by just 1%. Nationwide has blamed the slowdown in new home building for the ongoing increase in prices as demand continues to outstrip supply.

The Land Registry has highlighted the latest north-south divide in the pace of house price movements in England and Wales. In three regions, the North East, North West, and Wales, there were rises of less than 1% in the year to the end of August, whereas in the East and South East prices went up by 8.4% and 7.6% respectively. Regionally, average prices range between £100,000 and nearly £500,000. One estate agent commented: "England's property market is returning to type. Prices in London and the South East continue to march relentlessly upward, while in the North West the dramatic month-on-month fall has all but eradicated the gains made over the past year. Even as the number of transactions continues to fall, the north-south divide is reasserting itself with a vengeance." Overall, property in England and Wales rose by 0.5% in August compared to July, and annually were up 4.2%. The average property now stands at £184,682 however there's a huge range between the regions with London's average property at £493,026 while in the North East the average is £100,943.

UK

The ONS has said that productivity across the economy increased at its fastest pace in four years in Q2. Productivity is a key indicator for the MPC to each month in its deliberations over when to make the first bank rate rise. Output per hour rose 0.9% in Q2, the biggest quarter-on-quarter rise in four years. Output per hour expresses the amount produced by a company after all its costs have been stripped out. The more efficient, or productive, the company, the greater its level of output per hour. Since 2009 output per hour has expanded at an average quarterly rate of between 0.2% and 0.3%. However the news coincided with two surveys that showed manufacturing struggling to maintain growth. Surveys from the British Chambers of Commerce (BCC) and Markit revealed confidence among manufacturers is "low", export growth is falling, and jobs are being lost. The BCC survey showed growth is in decline in both manufacturing and services, with manufacturing confidence, sales, prices, and growth forecasts are dropping more sharply. The Markit survey added that manufacturers are starting to cut jobs, as its jobs index slipped below the 50 mark for the first time since April 2013 indicating a reduction in staff across manufacturing. Markit said: "Job cuts send a signal that manufacturers are becoming more cautious about the future, which may lead to a further scaling-back of production at some firms in coming months." Markit's overall purchasing managers' index (PMI) for September is still above the critical 50 level, however the latest figure of 51.5, is down 0.1 from August and close to the two-year low that it hit in June. The BCC said: "The real area of concern is manufacturing. Confidence is low, as growth continued to fall, and our measure of manufacturing export growth hit a six year low. Services growth, on the other hand, dipped only slightly and overall trends show the sector remains relatively strong and stable."

The ONS has also reported that growth in the service sector slowed in July. Services, which accounts for 79% of the economy grew 0.2%, compared with a rate of 0.6% in June, with growth of 2.8% compared to the same month of 2014. The ONS also announced that GDP for Q2 was unchanged at 0.7% from the previous estimate, however the annual growth figure for Q2 was revised down from 2.6% to 2.4%. Analysts are now concerned that there are signs the economic growth in Q3 won't be able to keep up the pace achieved in Q2, though Capital Economics were hopeful going forward, saying: "After all, business and consumer confidence remains strong, credit is cheap and becoming more available, and households are yet to spend all of their windfall from lower energy and food prices." There was also an upwards revision for GDP between 2011 and 2013, which puts the economy at 5.9% above its pre-recession peak, compared with previous estimates of 5.2%. "Upward revisions to GDP in earlier years mean that growth has averaged just over 2% in the six years since the economy started growing again in mid-2009," said Andrew Sentance at PwC, "This is respectable growth in the new normal post-crisis world and puts the UK among the leading major western economies - alongside the US and Germany - in terms of growth over the recovery as a whole."

Also from the ONS, is news that the UK's current account deficit narrowed much faster then expected in Q2. The current account figure measures the difference between imports and exports of trade and investment. The deficit narrowed from £24billion, or 5.2% of national income, in Q1of this year, to £16.8billion, or 3.6% of GDP, in Q2. Real household disposable income per head, which is a measure of the standard of living, rose 1.5% in the Q2 compared with the first, and was up 3.3% compared with the same quarter a year ago.

Europe

Eurostat has announced that the eurozone returned to deflation last month as prices fell at an annual rate of 0.1%. It's the first drop back into negative territory in six months, with an 8.9% fall in the price of energy largely responsible for the decline. The Eurozone's core inflation, (excludes energy and food prices), was up 0.9% the same as August. Eurostat also said the eurozone's unemployment rate for August was unchanged at 11%. Despite some growth and inflation in the first half of the year there are signs the recovery is losing its impetus, and some economists are worried that the slowdown in the Chinese economy could seriously damage the European and US economy. The Bank of Spain has already said it expects GDP there to slow from 1% to 0.8% in Q3, and that the recovery in the jobs market had tailed off over the summer. Should deflation and a slowing economy continue then the ECB will come under pressure to increase QE or carry it beyond September 2016. One economist said: "The

[ECB's] governing council will look to cement expectations over the continuation of its asset purchase programmes beyond their nominal end-date of September 2016. However, it may not be until the December meeting... that the governing council is prepared to make such a judgement."

US

The US economy added 142,000 jobs in September a figure far lower than the 203,000 forecasted by economists. Also, both July and August were revised downwards by a combined 59,000 jobs, and these disappointing figures cast serious doubt on whether the Fed will decide to increase interest rates later this month. The Labor Dept numbers reinforced fears that the China-led global economic slowdown is hitting America's recovery. However, the unemployment rate held steady at 5.1%. The number of new jobs for August was cut by 37,000 to 136,000 a total reversal of the upward revision expected by economists. July's total was also reduced, by 22,000 to 245,000. The number of new jobs created in the US has averaged 198,000 a month for 2014 - below last year's average of 260,000. The unemployment rate did show that 350,000 workers dropped out of the labour force last month, while average hourly wages fell by 1 cent to $25.09 during the month and were only 2.2% higher than the same month in 2014.

The Commerce Dept has said that the US economy grew faster than previously estimated in Q2. They said that the economy expanded at an annualised pace of 3.9%, rather than 3.7%, with the increase down mainly to strong consumer spending, business investment and residential construction. Its rate is much higher than the 0.6% rate recorded in the first quarter. Whilst many analysts expect the growth rate to have slowed in the current quarter, the Fed said economic growth appeared "solid" and the US remained "on track" for an interest rate rise this year. One analysts said: "Overall, the outlook on the US economy for the remainder of the year remains fairly optimistic, supported by continuing job creation, increasing consumer spending, improvements in the housing sector, and solid manufacturing numbers."

The Rest Of The World

India's central bank has cut its key interest rate for the fourth time this year, and by more than expected to 6.75% from 7.25%. Economists had been forecasting a cut to 7%. The bank has been under pressure to boost growth after inflation hit a record low of 3.6% in August due to falling commodity prices. The RBI has already cut the policy rate by 0.75% so far this year. GDP in India, Asia's third largest economy, slowed to an annual rate of 7% in Q2, down from 7.5% in the previous quarter. Consumer inflation is also well below the central bank's target of 6% for January next year.

September's manufacturing purchasing managers' index (PMI) has shown factory activity in China continuing to contract. Although the rose slightly to 49.8, up from 49.7 in August, the sector still contracted for the second consecutive month. A number below 50 indicates that factory activity contracted. The official PMI figure was a touch better than the 49.6 expected by economists. Despite the marginally better figure, the world's second-largest economy is on track to expand at its slowest pace in a quarter of a century. The government expects China to grow by 7% this year, but a spate of weak economic data has raised questions about whether that target will be achieved.

The IMF has warned global growth is likely to be weaker this year than last. IMF head Christine Lagarde also said she expected there would be only a modest acceleration in 2016, warning that there could be an economic "vicious cycle" caused by higher US interest rates and the Chinese slowdown. She added that these threats could jeopardise recent economic gains in Asia, Latin America and Asia. Ms Lagarde said: "The good news is that we are seeing a modest pickup in advanced economies. The moderate recovery is strengthening in the euro Area; Japan is returning to positive growth; and activity remains robust in the US and the UK as well. The not-so-good news is that emerging economies are likely to see their fifth consecutive year of declining rates of growth." She added: "On the economic front, there is ... reason to be concerned. The prospect of rising interest rates in the United States and China's slowdown are contributing to uncertainty and higher market volatility. Rising US interest rates and a stronger dollar could reveal currency mismatches, leading to corporate defaults... and a vicious cycle between corporates, banks, and sovereigns."

Markets, Swaps. Libor, Gold, Sterling

UK Swap Rates

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Thurs 1st	0.95	(-0.01)	1.13	(-0.02)	1.42	(-0.04)	1.81	(-0.03)	2.06	(-0.03)
Wed 30th	0.96	(+0.02)	1.15	(+0.01)	1.46	(+0.04)	1.84	(+0.02)	2.09	(+0.01)
Tues 29th	0.94	(-0.02)	1.14	(same)	1.42	(-0.03)	1.82	(-0.04)	2.07	(-0.04)
Mon 28th	0.96	(-0.01)	1.14	(-0.02)	1.45	(-0.04)	1.86	(-0.02)	2.11	(-0.06)
Fri 25th	0.97	(+0.03)	1.16	(+0.04)	1.49	(+0.07)	1.93	(+0.10)	2.17	(+0.09)
Thurs 24th	0.94	(-0.03)	1.12	(-0.11)	1.42	(-0.04)	1.83	(-0.04)	2.08	(-0.04)
Wed 23rd	0.97	(+0.01)	1.23	(same)	1.46	(+0.01)	1.87	(+0.02)	2.12	(+0.01)
Tues 22nd	0.96	(-0.06)	1.15	(-0.07)	1.45	(-0.09)	1.85	(-0.12)	2.11	(-0.11)
Mon 21st	1.02	(+0.02)	1.23	(+0.04)	1.54	(+0.04)	1.97	(+0.07)	2.22	(+0.07)
Fri 18th	1.00	(-0.02)	1.19	(-0.03)	1.50	(-0.03)	1.90	(-0.02)	2.15	(-0.02)

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 1st	0.51	(same)	0.58	(same)	0.75	(same)	1.04	(same)
Wed 30th	0.51	(same)	0.58	(-0.01)	0.75	(same)	1.04	(-0.01)
Tues 29th	0.51	(same)	0.59	(same)	0.75	(same)	1.05	(same)
Mon 28th	0.51	(same)	0.59	(+0.01)	0.75	(same)	1.05	(+0.01)
Fri 25th	0.51	(same)	0.58	(-0.01)	0.75	(+0.01)	1.04	(-0.01)
Thurs 24th	0.51	(same)	0.59	(+0.01)	0.74	(-0.01)	1.05	(same)
Wed 23rd	0.51	(same)	0.58	(-0.01)	0.75	(same)	1.05	(same)
Tues 22nd	0.51	(same)	0.59	(same)	0.75	(same)	1.05	(same)
Mon 21st	0.51	(same)	0.59	(same)	0.75	(-0.01)	1.05	(-0.02)
Fri 18th	0.51	(same)	0.59	(same)	0.76	(same)	1.07	(same)

Financial Markets – 25th September – 2nd October

Index	25/09/2015	This Week	% Change
FTSE 100	6,120.04	6,070.86	-0.80%
Dax	9,740.84	9,436.19	-3.13%
CAC 40	4,513.40	4,401.19	-2.50%

Index	25/09/2015	This Week	% Change
Dow Jones	16,201.32	16,060.22	-0.87%
S&P 500	1,932.24	1,901.18	-1.60%
Nikkei	17,880.51	17,225.13	-3.66%
Hang Seng	21,186.32	21,506.09	+1.51%
Shanghai Composite	3,092.35	3,052.78	-1.28%
Sydney	5,076.70	5,089.20	+0.25%

Gold

	Price	Change	%
Forex Gold Index $/oz	1106.20	-39.20	-3.42

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	1.36200	-0.01670	-1.23	1.43680	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.51740	+0.00420	+0.28	1.71520	1.44550