3rd October 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 - Maintained at to 0.05% - (next decision 6th November)

The Bank of England has accepted new powers designed to prevent a repeat of the old housing boom and bust. The new powers means the Bank would be able to impose limits on how much you can borrow to buy a home, with a loan-to-income ratio. The Financial Policy Committee (FPC) already has the power over loan-to-income ratios, but no power to enforce them. The news follows the introduction of the loan to income cap that lenders can't have more than 15% of new lending at more than 4.5 times income. Many critics argue that the cap is an admission that the FCA's move to affordability assessments rather than the old style salary multiples, has failed. In June, the Chancellor promised the Bank that the power to "recommend" would be changed to powers to "direct", which he said were needed to prevent a dangerous bubble developing in the housing market. The FPC admitted that high loan-to-value lending now is only 9% of mortgages - compared to 25% in 2007, during the boom – which would suggest that riskier lending is nowhere near getting out of hand. The Bank also wanted its new powers to cover both residential and buy-to-let mortgages, making sure that the income that landlords receive is greater than the interest payments on their mortgages. Some analysts think that by placing such controls on professional investors it might help cool the housing market, by preventing landlords speculating on hefty rises in house prices.

The Bank has given a clean bill of health to the government's Help to Buy mortgage scheme, saying that it hasn't been responsible for rising house prices. The Bank was reporting back on whether Help to Buy posed a risk to the economy. Bank governor, Mark Carney, has written to the chancellor stating: "Under current market conditions, the committee assesses that the scheme does not pose material risks to financial stability." Mr Carney added that both parts of the scheme accounted for only 5% of total mortgages, and they had been most popular in parts of the country where prices had risen least. "The scheme does not appear to have been a material driver of growth - for example, take-up of the scheme has been weak in London, where house price growth has been strongest," the FPC said, adding that house prices appeared to be cooling sooner than the committee had expected when it met in June.

The Prudential Regulatory Authority (PRA) has also amended the new high LTI lending cap by excluding lenders that write less than 300 mortgages a year. The CML and BBA had argued that private banks would be penalised by the rules in their original format. However, whilst the news is welcome overall, there are those in the industry who remain sceptical: 'The loan-to-income benchmark barometer is redundant in the high net worth market and it is welcome news that the PRA has recognised this. This decision returns the flexibility to lenders that they have enjoyed in the past and is important because generally speaking wealthier borrowers can afford greater income multiples. "The smaller private banks who do fewer than 300 cases a year will be delighted at the decision while the bigger private banks such as Coutts and Barclays Wealth who are part of a group will be able to take the 15 per cent allocation for the whole group. However, there may be some large-ish private banks who do more than 300 cases a year but aren't part of a big group who could find themselves at a disadvantage."

Bank and Building Societies

Nothing this week.

Housing / Mortgage Market

The September Nationwide property survey, reports that the annual rate of house price growth slowed in September to 9.4% from 11% in August. On a monthly basis, prices were down by 0.2%, the first fall since April 2013. The news reinforces the view from many analysts that the housing market is cooling, however there is strong regional variations, with London and the South continuing to outperform all other areas. Property prices in London are now 31% above their market peak in 2007, whilst elsewhere, prices are just 1% above pre-crisis levels. The average property price in the UK has fallen to £188,374, with the average in London at £401,072. Despite the monthly figures fall, prices still rose by 1.5% over the quarter. Nationwide's chief economist, said: "While September saw a slowing in house price growth, the picture on a quarterly basis (July, August and September combined) was still relatively strong, with all thirteen UK regions recording annual price gains." The society added that they expected prices to continue to rise in Q4, but at be at a slower rate. Nationwide said: "The outlook remains uncertain.

There have been tentative signs from surveyors and estate agents that buyer demand may be starting to moderate, but the low level of interest rates and strong labour market suggest that underlying demand is likely to remain robust."

The National Association of Estate Agents (NAEA) has revealed that younger borrowers are still struggling to get onto the housing ladder despite the total number of first-time buyers in August increasing. They said that just 3% of all recorded sales in August were to buyers aged 18 to 30, the lowest level since August 2013 and down from 12% a year ago. In August, borrowers aged between 31 and 40 accounted for 45% of all sales. The month also saw an increase in the proportion of first-time buyer sales, accounting for 28% of all transactions, the highest level since April this year. The proportion of first-time buyers of all sales was 25% in May, and 20% in both June and July. The report also showed that 90% of sales were to couples, with just 7% buying on their own. The NAEA also reported that 39% of their members have already seen demand for properties easing due to fears around the upcoming interest rate hike. The NAEA said: “Reports from our members suggest that the high house prices of the current housing market are still proving a barrier for the younger generation. It is evident that first-time buyers are indeed getting older, with the majority of home buyers last month aged 31 to 40, suggesting some correlation between the increase in the first-time buyer market and this age group. It is concerning at the lack of young people unable to buy their first home before the age of thirty, having to rent or stay at home for longer in order to save.”

UK

The ONS has said that Q2’s GDP figure has been revised upwards to 0.9% from the previous estimate of 0.8%. GDP was also 3.2% higher in Q2 compared to Q2 2013, and the ONS also revealed that the economy overtook its pre-recession peak in Q3 last year and not Q2 of this year as previously thought. The latest figures include the new methodology for calculating GDP, which remarkably now includes factors such as spending on research and development, as well as the economic contribution made by drug dealers and prostitutes. Q2’s GDP was also boosted by a 1.1% rise in output from the services industry, while construction was revised up sharply to 0.7% compared to the previous estimate of zero growth. Whilst the Bank of England is forecasting the economy to grow by 3.5% in 2014, many economists remain concerned that despite economic growth, the current account deficit (the value of imports, against the value of exports) has widened from 4.7% of GDP in Q1 to 5.2% in Q2. The British Chambers of Commerce (BCC), has said the deficit is at "a level which in the long-term will prove to be unsustainable". Also using the ONS's new methodology, public sector debt as a percentage of GDP (excluding banks), increased to 79.1% compared to 76.5% using the old system. One economist said: "While a smaller than previously reported recession in 2008-09 and better than previously reported GDP growth since then is welcome news, it does not hugely change the growth outlook - especially as there have been no major revisions to the economy's performance in 2013 and the first half of 2014. What it does imply though is that the UK's recent productivity performance has not been as bad as thought and that the economy has greater capacity to grow without generating inflationary pressures."

The Markit UK Manufacturing Purchasing Managers' Index (PMI) for September showed the manufacturing sector growing at its slowest pace for 17 months, mainly as a result of the strong pound and eurozone weakness. The index fell to 51.6 from 52.2 in August. (Figures above 50 indicates growth.) Firms reported that growth in new orders was "near stagnation", with the current sluggish growth in the eurozone contributing to exports growing at their slowest pace for 18 months. Where an increases in new export orders were reported, it reflected demand from North America, Germany, Scandinavia and the Middle East. The PMI survey also highlighted that average output prices rose at the slowest pace in 15 months, whilst the number of jobs created in the industry accelerated, regaining most of the momentum lost in August. The Chartered Institute of Purchasing & Supply (CIPS), said manufacturers were taking "a wait and see approach" to the slowdown, adding that "anyone involved in supply chains will be watching carefully as we head towards the end of 2014". Markit, said: "The weakening of the manufacturing PMI data in August was cited as a major concern among the MPC. September's disappointing reading will therefore add to the air of caution as to whether the economy is ready for higher interest rates." The EEF manufacturers' group, said that while activity in the industry was still on the rise the pace of expansion was "clearly levelling off". They added that: "The flat picture in European markets is inevitably proving to be a drag on export demand, with manufacturing activity across the region at a 14-month low. Our forecasts, nevertheless, continue to show output and employment growth in the official data through the remainder of this year."

The Markit services purchasing managers' index (PMI) has fallen back in September, indicating that growth in the services industry has slowed. The index fell to a three-month low of 58.7 from August's 60.5. As readings above 50 show expansion, Markit did point out that the index was still indicating rapid growth. Markit said the results suggested Q3's GDP would be 0.8%. "September's PMI surveys suggest that the UK most likely enjoyed another spell of above-trend economic growth in the third quarter, but the recovery appears to be losing its legs," said Markit. "The pace of expansion hit a six-month low in September and is showing signs of moderating further as we move towards the end of the year," they added.

Europe

EU statistics agency Eurostat has reported that eurozone inflation fell again in September, to 0.3%, the slowest rate in nearly five years. The lowest level for eurozone inflation since October 2009, will do nothing to ease fears of a deflationary spiral. Inflation has been persistently below the ECB 2% target rate, with falls in the price of unprocessed food and energy driving the overall slowdown. To try and kick-start the eurozone, the ECB has cut its benchmark rate to 0.05%, and introduced new stimulus measures, though stopping short of actual QE. Economists have described the inflation as now "perilously close to zero", and have called on the ECB to do even more. "Today's drop in consumer price inflation heaps further pressure on Mario Draghi to engage in QE. I believe he will succumb to this pressure eventually," said one economist.

Eurostat has also reported that unemployment in the eurozone is holding steady at 11.5% in August, with no change from July. However, in Germany the number of people looking for work in the region's largest economy, increased by a seasonally-adjusted total of 12,000 in September. Analysts, have said that the rise was not a big cause for concern just yet. "Although (the data) suggest that the German job market have lost a bit of steam recently, it remains in good health," commented one.

In August German factory orders fell by their largest amount since the height of the financial crisis in 2009. The economy ministry figures revealed that contracts fell 5.7% month-on-month, which suggests further weakness in Europe's largest economy. The biggest drop was for orders from outside the eurozone, which fell 9.9%. Although Germany's economy had a strong start to the year, it shrank by 0.2% in Q2. Economists are worried that the economy could contract again in Q3, as the eurozone as a whole is weakening.

Markit's final reading of manufacturing growth in the eurozone also slowed further in September as new orders fell for the first time in more than a year with demand dwindling both domestically and abroad. The index came in at 50.3, which is its lowest point since July 2013 and down on August's 50.7 and an earlier flash estimate of 50.5.

The French government has said it will reduce its budget deficit to below the EU threshold of 3% of GDP by 2017, two years later than promised. The new forecast indicates the public deficit will fall to 4.3% next year, but to 2.8% by 2017. The French Finance Minister said growth would remain weak, projecting that the economy would only grow very slightly this year. "We have taken the decision to adapt the pace of deficit reduction to the economic situation of the country," he said. "Our economic policy is not changing, but the deficit will be reduced more slowly than planned because of economic circumstances - very weak growth and very weak inflation." France plans to cut public spending by €50billion (£39billion) by 2017, the year in which the country's next presidential election will be held.

The eurozone purchasing managers index (PMI) for business activity in the eurozone, has indicating that the economy remains "stuck in a rut". The index fell to 52 in September, down from the initial estimate of 52.3. Although readings above 50 indicates expansion, Markit described the overall picture is one of an economy struggling against multiple headwinds.

Separately, retail sales rose 1.2% in August from July, and were 1.9% higher on the previous year. "It may be that retail sales were lifted in August by people determined to enjoy their summer holidays after a difficult year. There may also have been a boost to retail sales coming from squeezed consumers looking to make the most of the summer sales in some countries," said one economist. Markit said that the latest PMI survey just added to the pressure for the ECB to expand its asset purchase plan.

US

The Labor Dept has reported that the unemployment rate has fallen to a six-year low of 5.9% in September. The rate is down from 6.1% in August, as employers added 248,000 jobs, and the job growth figures for August and July were revised upwards. "The most important item in this report is the drop in the unemployment rate below 6%. (Fed Chair Janet) Yellen has said there is only so much slack if the unemployment rate falls below 6%," said the chief economist at FTN Financial. The news came as the Fed's stimulus programme comes to an end this month. Although the Fed has indicated it will raise short term interest rates if the economy continues to grow, its not given any firm date for the rise, only that the move will come a "considerable time" after QE ends. "This (jobless) number will continue to support the notion that the economy is growing," said Kingsview Asset Management in Chicago, "and it isn't so strong that the Fed will raise rates anytime soon". The Labor Dept said 69,000 more jobs were created in July and August than previously thought, plus nearly 100,000 jobseekers stopped looking for work in September. The biggest rise in jobs was in professional and business services, which includes management and legal services, which saw an increase of 81,000 jobs in September. The retail sector added 35,000 jobs compared with the previous month. Employment in the health care, construction and leisure and hospitality sectors also continued to increase.

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	
Fri 3rd	1.25	(+0.04)	1.55	(+0.04)	1.97	(+0.05)	2.48	(+0.04)	2.91	(+0.03)
Thurs 2nd	1.21	(-0.03)	1.51	(-0.04)	1.92	(-0.04)	2.44	(-0.02)	2.88	(-0.02)
Wed 1st	1.24	(-0.04)	1.55	(-0.05)	1.96	(-0.05)	2.46	(-0.05)	2.90	(-0.03)
Tues 30th	1.28	(same)	1.60	(-0.01)	2.01	(-0.02)	2.51	(-0.02)	2.93	(-0.01)
Mon 29th	1.28	(+0.01)	1.61	(same)	2.03	(-0.01)	2.53	(-0.02)	2.94	(-0.02)
Fri 26th	1.27	(-0.01)	1.61	(-0.01)	2.04	(-0.01)	2.55	(same)	2.96	(same)
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)

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Fri 3rd	0.50	(-0.01)	0.56	(same)	0.71	(same)	1.05	(-0.01)
Thurs 2nd	0.51	(same)	0.56	(same)	0.71	(same)	1.06	(same)
Wed 1st	0.51	(same)	0.56	(same)	0.71	(same)	1.06	(same)
Tues 30th	0.51	(same)	0.56	(same)	0.71	(same)	1.06	(same)
Mon 29th	0.51	(same)	0.56	(same)	0.71	(same)	1.06	(-0.01)
Fri 26th	0.51	(same)	0.56	(same)	0.71	(-0.01)	1.07	(same)
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)

Financial Markets – 26th September – 3rd October

Index	26/09/2014	This Week	% Change
FTSE 100	6,642.74	6,547.12	-1.44%
Dax	9,480.25	9,275.14	-2.16%
CAC 40	4,384.08	4,289.12	-2.16%

Index	26/09/2014	This Week	% Change
Dow Jones	17,023.41	17,009.69	-0.08%
S&P 500	1,972.34	1,967.90	-0.23%
Nikkei	16,229.86	15,890.95	-2.09%
Hang Seng	23,678.41	23,315.04	-1.53%
Shanghai Composite	2,347.72	2,363.87	+0.69%
Sydney	5,316.60	5,292.60	-0.45%

Gold

	Price	Change	%
Forex Gold Index $/oz	1193.25	-29.00	-2.37

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	1.27300	-0.00860	-0.67	1.27800	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.59790	-0.04510	-2.75	1.71520	1.44550