5th June 2015

Market Report

Central Bank Rates

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

The MPC has held the bank rate at 0.5% again as expected. The ongoing low inflation, which slipped into negative territory in April to -0.1%, continues to delay expectations about the timing of the first rise. In the latest quarterly inflation report, the Bank said it was likely to raise the bank rate around the middle of next year. One economist said: "The Bank of England was always a nailed-on certainty to keep interest rates at 0.5%. Indeed, the odds currently strongly favour the Bank of England sitting tight on interest rates (and on the stock of quantitative easing) over the rest of 2015. We expect the Bank of England to start edging interest rates up in the first half of 2016. Most analysts feel that early on in 2016 is becoming increasingly likely, for the for the first increase, though all admit that much depends on how GDP and productivity go over the coming months, as well as just how quickly inflation increases later this year. The British Chambers of Commerce (BCC) said the MPC had made the "right decision" to keep interest rates on hold, saying: "Annual inflation has fallen marginally into negative territory over the past month, raising interest rates in real terms. And while inflation will edge up later on this year, it will stay below the Bank of England's 2% target for the next 12 to 18 months, reinforcing the case for maintaining interest rates for the time being."

The ECB has said the eurozone's recovery is set to "broaden", as it raised its inflation projections for 2015, and left its key interest rate unchanged at 0.05%. Eurozone inflation is now expected to be 0.3% this year, against the previous prediction of zero. The central bank expects inflation to stay low in the coming months, as a result of lower oil prices, but to rise by the end of the year. Mr Draghi said the ECB's asset bond buying programme was proceeding well, and reiterated that it was intended to run until the end of September 2016. "Our monetary policy measures have contributed to a broad-based easing in financial conditions, a recovery in inflation expectations and more favourable borrowing conditions for firms and households." However, Mr Draghi cautioned that while the recovery was "on track", he said the ECB had "expected stronger figures". "There has been a loss or some loss of momentum... mostly due to weakening of the economies outside the euro area, emerging markets mostly."

Bank and Building Societies

Nothing this week

Housing / Mortgage Market

Halifax has reported that property prices rose by 2% in the three months to May to reach an average of £196,000. It means that the pace of price growth in the period slowed for the second successive month. In the three months to April prices were up by 2.2% and 2.6% in March. Annually, property prices rose by 8.6% over the year to the end of May. Continued house price rises have raised concerns among estate agents that first-time buyers will be priced out of the market over the next five years. Halifax's housing economist said: "This measure of the underlying rate of house price growth eased for the second consecutive month, falling to its lowest since January. "Housing supply remains extremely tight with the stock of properties available for sale currently at its lowest level for many years. At the same time, ongoing economic recovery, increasing employment, real earnings growth and very low mortgage rates are all supporting housing demand." Halifax also said difference between supply and demand had kept inflation well above earnings growth despite activity levels being subdued. Halifax also said that the number of properties on the market is at its lowest level for many years. "The imbalance between supply and demand is likely to continue to push up house prices over the coming months," said Halifax. "Looking further ahead, the increasing level of house prices in relation to earnings is expected to dampen house price growth."

The Bank Of England has said that mortgage approvals in April were at their highest level for 14 months. The bank also said there was a 10% rise in the number of approvals for purchases from March to April, the biggest month-on-month increase since 2009, although the total to 68,706was still way below the peak of 129,996 in November 2006. Capital Economics, said: "A strong labour market and record low mortgage rates are supporting the market. But with lending standards still tight, this pace of growth will not be sustained." April's increase in approvals confounded predictions that borrowers would be more cautious and delay purchases owing to the General Election.

The BBA has revealed that the banks approved more mortgages in April than in any month since March 2014, with the total up 2.8% year-on-year. There were some 70,310 approvals, compared with 68,422 in April 2014, with the number of purchase approvals up 3% from 40,850 to 42,116, while remortgage approvals increased 5.6% from 20,063 to 21,189 over the period. Approvals for loans such as further borrowing fell slightly, from 7,509 to 7,005. Although approvals were up year-on-year in April, gross lending fell by 13% down £11.9billion to £10.5billion. One industry commentator said: "The data shows we are witnessing a resurgence in mortgage lending by the major banks with approvals hitting a 13-month high in April. After a slow start to 2015, loan approvals are at their highest since the Mortgage Market Review took effect and have risen for three successive months. It is a sure sign for borrowers that there is life left on the high street despite growing competition from smaller building societies and specialist lenders."

The Land Registry has said that the price of semi-detached homes rose at the fastest rate of any property type in England and Wales in the year to the end of April. The value of semis increased by 5.6% over the year, ahead of flats (5.4%) and detached homes (5.1%). Overall, property climbed by 5.1% over the year and by 0.9% from March to April, to leave the average home at £179,817. Prices were up the fastest in London over the year at 10.9%, followed by the South East at 8.8%. The slowest growth was in Wales, up 0.3% where prices fell by 1.1% between March - April. The only region which declined on an annual basis was the North East, down 0.6% to an average price of £98,374.

Property price changes

Region	Monthly change	Annual change
Yorkshire and the Humber	2.7%	3.1%
London	2.3%	10.9%
North West England	2.1%	2.3%
East Midlands	1.4%	5.1%
South West England	1.4%	5.9%
South East England	0.8%	8.8%
East England	0.3%	7.8%
West Midlands	0.2%	2.3%
North East England	-0.5%	-0.6%
Wales	-1.1%	0.3%

Source: Land Registry

The Nationwide has said that a record of almost four out of 10 properties were sold without the need for a mortgage in Q1. They said that low interest rates had encouraged investment in property, while mortgage lending had been squeezed in recent years by the banks. The lender also said that house prices in May were 4.6% higher than a year ago, which was a slowdown on the 5.2% annual rate of increase recorded in April. Nationwide said this marked a resumption of a "gradual downward trend" in annual price growth which started last summer. May's prices were up 0.3% on April, leaving the average price of a property to £195,166. In 2014 the average proportion of cash buyers was 36%, which now stands at 38%in Q1. "I suspect [the proportion] will fall throughout the year as lenders and borrowers adjust to, and become more familiar with, the new lending rules," said one estate agent. "This realignment of buyers with lenders may well be evident in the strong mortgage approvals data issued this week by the Bank of England." The highest proportion of cash buyers (almost 50%) was in the North East from 2013, with the South West coming in second, and London just above the national average.

The National Association of Estate Agents is predicting a tough time for first time buyers as property prices continue to rise. Despite April's marginal increase in sales to first time buyers where they were 26% of total sales, over 90% of agents said they didn't expect the first-time buyer market to substantially increase over the next five years. Additionally, approx 55% of agents thought that that increasing property prices would push first-time buyers out of the market. In March, 343 potential home buyers were registered per branch compared to 344 registered per branch in April, while supply dipped slightly from 48 houses available per branch in March, to 43 in April. The NAEA said house price rises and tighter lending criteria made buying a home 'notoriously tough for first-time buyers'. They added: "Whilst this month's figures are positive and a step in the right direction, I'd like to think that with the help of 200,000 new starter homes and the Help to Buy ISA, first-time buyers will be given even more help to get their foot on the ladder; however these things may take time to come to fruition."

UK

May's CIPS/Markit Construction Purchasing Managers' Index (PMI) has rebounded in May from April's near two-year low. The index moved up to 55.9, from 54.2 in April, as confidence levels hit a nine-year high. (Readings above 50 indicates growth.) Markit said that result meant a "period of policy uncertainty was no longer on the horizon", adding that "Additionally, construction firms experienced an upturn in new business growth from April's near two-year low and job creation was the fastest recorded so far in 2015." However, Markit warned that they are far from certain whether the improvement in confidence will result in sustainable increase in output volumes on the ground. The PMI also showed construction firms took on staff at the fastest rate in five months during May.

Markit's monthly UK Purchasing Managers' Index (PMI) for manufacturing has shown growth improving slightly last month. A strong domestic market helped to offset weaker overseas demand, as the index reached 52 in May from 51.8 in April. Although figures over 50 still indicates expansion, May's increase was weaker than analysts had expected. Markit said the readings "called into question" expectations of a broad rebound in UK economic growth in Q2. Manufacturing represents about 10% of the UK's economy. "Manufacturing looks on course to act as a minor drag on the economy, as the sector is hit by a combination of the strong pound and weak business investment spending," Markit added. Manufacturing represents about 10% of the UK economy. The PMI survey results, came after the engineering and manufacturing employers' body EEF, published its latest survey which showed demand for goods in the UK had weakened in the past few months, as exports remained flat. EEF's chief economist, said that manufacturing was still growing, however they warned that it was not expanding "at the pace anticipated at the beginning of the year". They added that: "The sector is still in positive territory, but the ground is looking a lot less firm beneath its feet."

KPMG and the Recruitment and Employment Confederation (REC) have said that the pace of hiring permanent staff slowed down in May, to a four-month low. However, the rate of growth in short-term jobs had sped up since April. The report indicated that companies needed time to "digest the election result", as the number of job vacancies also fell to their slowest in 2015. Also the report highlighted that while starting salaries for permanent employees continued to grow, the pace of that growth sank to its lowest since April's nine-month high. Recruitment agencies reported that the pay of temporary and contracted staff also continued to grow, although at its slowest since January. The availability of temporary staff saw its fastest drop in seven months, leading recruitment consultants to report difficulties in hiring suitable people. KPMG said: "The UK job market saw a slight slowdown in May, as those on boards took time to digest the election result and work out the ramifications for their business. The public sector continues to suffer, with pay growth rising by just 0.2% in the last reported quarter."

Europe

The OECD has increased its 2015 GDP forecast for the eurozone to 1.4% from 1.1%, and the 2016 forecast to 2.1% from 1.7%. The ECB's monetary easing programme was cited as one factor behind the revision. Eurozone unemployment has also improved, with the jobless rate down to 11.1% in April, from 11.2% in March. A survey from Markit indicated eurozone companies created jobs at the fastest pace in four years last month, with job creation accelerating in Germany, France and Spain. However, the survey also indicated that economic growth in the eurozone's private sector lost steam last month, as the composite purchasing managers' index (PMI) slipped to 53.6 in May from 53.9 in April. (Figures above 50 indicates growth.) "The eurozone recovery lost some of the wind from its sails in May, with growth of output and new orders both slowing to three-month lows," said Markit.

The EU's statistics agency Eurostat has reported that inflation in the eurozone returned to positive territory in May after five months of falls or stagnation, and reviving hopes of an economic recovery in Europe. The annual inflation rate rose to 0.3%, up from 0% in April, which should please the ECB which has sought to avoid deflation in recent months. Core inflation rate, which strips out volatile items such as food, energy and tobacco, was up 0.9% in the year to May from April's 0.6%. The ECB has remained concerned that if price falls become entrenched, consumers and businesses will delay purchases and investment in the expectation that prices will fall further. "This increase was stronger than widely expected, even if inflation is hardly racing ahead," said one economist. "Renewed dips into deflation for the eurozone are looking increasingly unlikely with the risks diluted by a firming in oil prices from their January lows, the weakness of the euro and improved eurozone economic activity."

US

In a highly unusual move, the IMF has asked the Fed to delay any rise in interest rates until 2016. The IMF said the Federal Reserve should wait to see "more tangible signs of wage or price inflation", as they believe that "pockets of vulnerability" in the US economy have emerged. They have said these could cause serious trouble for the wider economy. "Deferring rate increases would provide valuable insurance against the risk of disinflation, policy reversal and ending back at zero policy rates," the IMF's report said. And because of the global implications of a rate rise, communication from the Fed was vital, it added. The fund suggested monthly press conferences from the central bank to replace the six per year that they currently hold. Although many US analysts have expressed a preference for a rate rise this year, a number of the latest economic reports have been varied, including data showing that the economy shrank by an annualised 0.7% in Q1. The IMF said this would "unavoidably pull down 2015 growth, which is now projected at 2.5%". For 2016, the forecast is for 3%, although this better than the earlier from the OECD, which cut its forecast to 2% for this year. The IMF also feel that the US dollar is moderately overvalued, saying that: "Continued over appreciation is a potential risk and should not be discounted."

The Institute for Supply Management has said that US manufacturing picked up in May for the first time in six months. The index went up to 52.8 in May, up from 51.5 in April, fuelling hopes that growth is rebounding from Q1's slump. (Figures above 50 indicates expansion.) However, there were less encouraging figures for consumer spending, which accounts for around 75% of economic growth, which was unchanged in April, against a 0.5% increase in March. Stagnant consumer spending is one reason that manufacturing has stalled, and only grown slightly in the past few months. Manufacturers usually lags consumer spending, as firms wait to boost production in the wake of spending by consumers. /"The April income and spending figures are another reminder that even though their incomes are rising at a healthy pace, households are still reluctant to boost spending more freely,'' said one economist. There was more positive news for personal incomes, which were up by 0.4% in April. As well as the improvement in manufacturing, construction spending also increased by 2.2% in April the highest level since November 2008.

The Rest Of The World

Nothing this week.

UK Swap Rates

Markets, Swaps. Libor, Gold, Sterling

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Thurs 4th	1.02	(-0.01)	1.25	(-0.03)	1.61	(-0.07)	2.09	(-0.09)	2.35	(-0.08)
Wed 3rd	1.03	(+0.03)	1.28	(+0.04)	1.68	(+0.09)	2.18	(+0.14)	2.43	(+0.15)
Tues 2nd	1.00	(+0.01)	1.24	(+0.03)	1.59	(+0.04)	2.04	(+0.08)	2.28	(+0.07)
Mon 1st	0.99	(+0.01)	1.21	(+0.02)	1.55	(+0.04)	1.96	(+0.05)	2.21	(+0.05)
Fri 15th	0.98	(-0.01)	1.19	(-0.02)	1.51	(-0.02)	1.91	(-0.02)	2.16	(-0.03)
Thurs 28th	0.99	(-0.02)	1.21	(-0.04)	1.53	(-0.06)	1.93	(-0.06)	2.19	(-0.05)
Wed 27th	1.01	(same)	1.25	(same)	1.59	(+0.03)	1.99	(+0.03)	2.24	(+0.01)
Tues 26th	1.01	(-0.01)	1.25	(-0.02)	1.56	(-0.05)	1.96	(-0.07)	2.23	(-0.07)
Mon 25th	1.02	(same)	1.27	(same)	1.61	(same)	2.03	(+0.02)	2.30	(+0.02)
Fri 22nd	1.02	(-0.01)	1.27	(same)	1.61	(-0.01)	2.01	(-0.04)	2.28	(-0.04)

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 4th	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)
Wed 3rd	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)
Tues 2nd	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)
Mon 1st	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)
Fri 29th	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)
Thurs 28th	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)
Wed 27th	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)
Tues 26th	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)
Mon 25th	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)
Fri 22nd	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)

Financial Markets – 29th May – 5th June

Index	29/05/2015	This Week	% Change
FTSE 100	7,037.34	6,805.92	-3.29%
Dax	11,524.17	11,206.65	-2.75%
CAC 40	5,074.18	4,920.60	-3.03%

Index	29/05/2015	This Week	% Change
Dow Jones	18,126.12	17,905.58	-1.22%
S&P 500	2,120.79	2,095.84	-1.18%
Nikkei	20,563.15	20,460.90	-0.50%
Hang Seng	27,424.19	27.260.16	-0.60%
Shanghai Composite	4,611.74	5,023.10	+8.92%
Sydney	5,774.90	5,506.50	-4.65%

Gold

	Price	Change	%
Forex Gold Index $/oz	1175.90	-14.10	-1.80

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	1.39210	-0.02680	-1.92	1.40430	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l

US Dollar	1.53230	+0.00330	+0.22	1.71520	1.44550