5th September 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 - Reduced to 0.05% - (next decision 9th October)

The Bank of England kept the bank rate unchanged at is record low of 0.5% again this month, with QE also untouched. Minutes of the latest meeting will be published next week and it will be interesting to see if any other committee members have joined hawks Ian McCafferty & Martin Weale in voting for a rise in the bank rate. Despite the feverish anticipation of a rise, many economists feel that the sluggish growth in wages would cause households and businesses to suffer if rates increase too soon. Analysts predict that a 0.25% rate rise would equate to an annual increase of £250 on a typical mortgage.

The ECB cut its benchmark interest rate to 0.05%, and has also introduced new stimulus measures in its latest attempt to stimulate growth in the eurozone. In June the ECB became the first major central bank to introduce negative interest rates. The bank will now launch an asset purchase programme, to buy debt products from banks, which is hoped will add liquidity to the financial system and boost lending. Whilst the measure is short of buying government bonds (QE) ECB president Mario Draghi admitted that QE had been discussed by the bank. "Some of our governing council members were in favour of doing more than I've just presented, and some were in favour of doing less," he said. "So our proposal strikes the mid-road.... a broad asset purchase programme was discussed, and some governors made clear that they would like to do more." The BBC's Robert Peston has described the move as "a last roll of the dice", adding that: "The European Central Bank has now almost exhausted its ammunition for preventing the Eurozone sliding into a devastating deflationary, contractionary spiral." Mr Draghi also gave an update on the ECB's forecasts for the eurozone economy, with a warning of slower growth, 0.9% in 2014, and 1.6% in 2015, whilst inflation was cut to 0.6% rising to 1.1% in 2015, which is well short of the ECB's target of close to, but below, 2.0%. The central bank also cut its deposit rate, what banks pay to keep their money at the central bank, to minus 0.2% from minus 0.1%, which they hope will force banks to lend to businesses, rather than sit on their cash. One analyst commented that: "For years the ECB has been very slow to react and often frustrated markets," adding: "But in the face of dire and clearly worsening economic indicators Draghi has actually gone beyond markets' expectations today. The frustration is that it has taken so long with inflation having already fallen so low, but it is certainly progress."

Bank and Building Societies

According to the Financial Ombudsman Service (FOS) complaints over payment protection insurance (PPI) have fallen after 2013's record peak, but are still at historically high levels. FOS confirmed it had received 133,819 PPI complaints in the first half of 2014r, compared with 193,054 in second half of 2013. PPI complaints still account for around 70% of FOS cases. FOS said: "Around 5,000 people a week are currently asking the ombudsman to look into their PPI complaint. This is down from the highs of 2013 when we were receiving over 12,000 a week, but still significantly more than any other financial product." The FCA has said that since 2011, banks have paid £16billion in compensation.

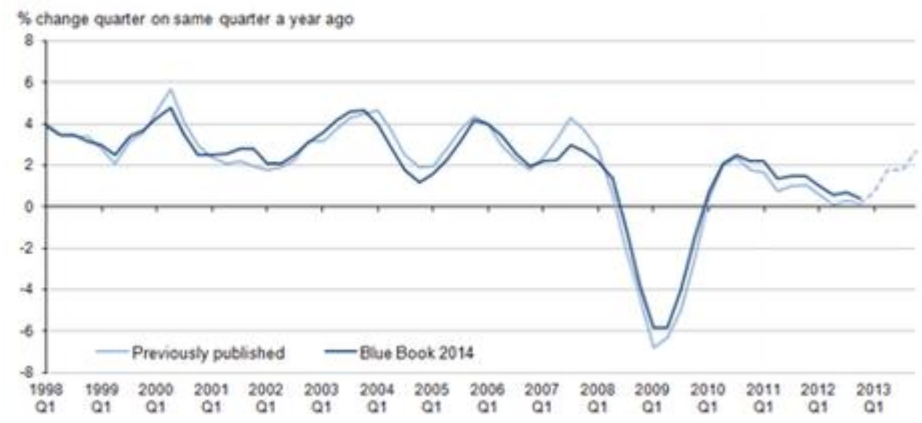
Housing Market

The July figures from the Bank Of England have shown that purchase approvals were up 7.9% year on-year in July at 66,569. However, approvals were down 0.8% from June. Remortgages slipped again on an annual basis for the fourth consecutive month in July, with 32,983 approvals making a 3.8% on July 2013's 34,298, though the actual amount was £5.2billion, up 2% on the £5.1billion in July 2013. There was also a sharp drop in annual approvals for other purposes (such as further advances) which were down 18% on last year, though the actual value was £605million in July, up 14.8% from £527million on a year earlier. Economists are calling the figures are proof that lending is recovering following the implementation of the Mortgage Market Review. One economist said: "There was a slight easing of purchase approvals in July, but overall I think these are positive numbers. We've heard a lot of talk about a cooling housing market but the data shows it has not been a significant contraction." Most analysts are saying that the remortgage figures reflect those borrowers playing a waiting game on the first interest rate move, with the growing amount of approvals for other purposes a clear indicator that fears of an interest rate rise are growing. They said that they: "think people are waiting to find out where the base rate will go but the rise of other forms of lending, normally the reserve of those who can't obtain the mainstream lending types, is a clear indicator that people are worried about interest rates rising soon."

According to figures from the Department of Communities and Local Government (DCLG), over 48,000 homeowners have taken advantage of the Help to Buy scheme since it started, though it now looks as if the scheme has peaked, as the number of borrowers using the mortgage guarantee part fell in June, compared to May. Housebuilders are also saying that that the equity loan part of the scheme was also less popular this summer than in 2013. One builder, Redrow said the market had moderated, as of the Mortgage Market Review (MMR), along with further restrictions on access to Help to Buy by Lloyds Banking Group, who have dropped the maximum borrowers can take from £500,000 to £150,000. Nationwide has also limited Help to Buy equity loans, to first-time buyers only. The latest figures will be being looked at closely by the Financial Policy Committee (FPC), who are meeting in September to see whether the scheme should be altered.

UK

The ONS has revised up the estimates for GDP during and after the recession. So as to match the way Europe calculates economic growth, amazingly the figures now include proceeds from charities, illegal drugs, and prostitution. GDP is now revised up by 0.1% per annum between 1997 and 2012. The ONS also say that the recession ended in Q1 of 2013, and not Q2 of this year. The new data says that the economy shrank by up to 6% in the recession, against the previous "peak-to-trough" estimate of 7.2%. Revised real GDP quarterly growth rates



Source: Office for National Statistics

"Despite the wide ranging improvements underpinning the new estimates, the broad picture of the economy has not changed much," said the ONS. "Although the downturn was less deep than previously estimated, and subsequent growth stronger, it remains the case that the UK experienced the deepest recession since ONS records began in 1948 and the subsequent recovery has been unusually slow." Incredibly the ONS reports that between 1997 and 2012, drugs and prostitution were worth £141.7billion, whilst research and development was worth £294billion over the same period.

The Markit/CIPS services purchasing managers' index (PMI)for August is showing the services sector recording its fastest growth for almost a year. The index reached 60.5 in August, up from July's 59.1. (Any score above 50 indicates expansion.) However the same index for the eurozone services and also manufacturing showed a slowdown. The UK PMI survey showed that demand remained strong with marketing activity increasing as a result. The PMI survey for UK manufacturing industry reported growth at the slowest pace in 14 months. "An acceleration of growth in the vast services sector and an on-going construction boom offset a weakened performance in manufacturing in August," said Markit. They predict that the services and manufacturing figures suggest the economy is on course to post "strong" economic growth in the current quarter, in line with the 0.8% recorded in the first two quarters of this year.

The Bank of England has said that the amount of new money being borrowed by consumers soared to more than £1billion in July, and is the highest figure since March this year, plus a big jump on the figure for June. Consumers borrowed £1.1billion on credit cards and unsecured loans in July, compared to £655million in June. Borrowing on credit cards alone more than doubled over the period and could be taken as a sign of greater consumer confidence, however many are concerned that people are having to borrow extra cash to cover their basic needs. "It may well be that a significant number of people are borrowing more due to the squeeze on their purchasing power, coming from extended low earnings growth," said one economist. And with a bank rate rise on the cards, borrowing increasing at this rate will leave many consumers vulnerable to interest rate rises.

The CBI has said it expects GDP to slowdown in the second half of this year as the impact of improved business and consumer confidence starts to ease. GDP grew by 0.8% in Q1 & Q2, but the CBI is now predicting a decline to 0.7% in Q3 and 0.6% in Q4. However, they felt that the economic recovery was "on solid ground", with overall growth forecasts for this year and 2015 unchanged at 3% and 2.7%. "The UK's recovery is on solid ground, with our quarterly growth on average outstripping G7 competitors over the last year," said the CBI. "For the rest of this year, we expect growth to get on to a more even keel and the recovery to become further entrenched next year." The CBI remains concerned that the "continued weakness of productivity and slow wage growth" had also led to an easing of momentum, though they do expect average earnings to pick up, with growth of 1% expected this year and 2.4% in 2015.

The Markit/CIPS construction Purchasing Managers' Index (PMI) is showing the construction sector expanding at its fastest pace for seven months in August, despite supply shortages holding back growth. The index rose to 64 from 62.4 in July, catching out economists who had been expecting a fall. It marks the 16th consecutive month that the index has been above the 50 level that shows growth. Markit said the pace of growth was causing supply problems, as the availability of both materials and sub-contractors dropped at their fastest rate since its survey began in 1997. "The sector is struggling to find enough skilled tradesmen to keep pace with new work and the labour market will continue to put pressure on costs until the next wave of apprentices begin to enter the jobs market," said the Chartered Institute of Purchasing & Supply, adding that suppliers were still struggling to ramp up production to pre-crisis levels. Growth in the sector in August was broad-based, with residential housing, commercial building and civil engineering activity all seeing strong increases. Despite the increases, the construction of new homes remains below levels needed to meet demand.

The Chancellor will deliver the Autumn Statement on 3rd December. The statement, which updates MPs on growth and borrowing forecasts and outline planned tax and spending measures, will come just six months before the general election.

Europe

Germany's statistics agency has reported the strongest monthly rise in German industrial output in over a year, calling it an 'encouraging signal' for the economy. German industrial output rose 4.6% in July despite concerns over the Ukraine crisis, Destatis said. The figure was far higher than many economists had forecast, and follows a 2.7% fall in output in June. Foreign orders made up the bulk of the rise in demand up 6.9%, while domestic orders increased 1.7%. The rise in industrial orders contrasts with figures from the economy ministry showing that the economy shrank in Q2 by 0.2%. Following the weak figures, the government warned that the German economy had been "losing momentum".

The eurozone PMI survey has indicated that the region's economic recovery slowed in August as output fell in France and Italy. The Index was 52.5 in the month, down from 53.8 in July and is the weakest rate of growth in the year so far, with both manufacturing and service sectors are showing slowdowns. "The eurozone economy is defying expectations of gaining momentum, which will no doubt add to calls for the ECB to embark on full-scale quantitative easing," said Markit. Two major eurozone economies, France and Germany, had mixed fortunes last month, with France's overall PMI reading for August was 49.5, indicating further contraction despite a slight increase in service sector activity. Germany saw strong growth, but overall output growth slowed to 53.7 in August, down from 55.7 in July. Italy dipped back into contraction in August, halting a seven-month sequence of expansion, but there was good news for Spain who reached a 7.5-year high in output growth, and posted the sharpest rise in service sector activity growth since December 2006. Ireland's output hit 61.8, a 14-year high.

US

The Bureau of Labor Statistics reported that the US economy added 142,000 jobs in August, which was below most analysts and economists predictions. The unemployment rate dipped to 6.1% from 6.2% in July. The world's largest economy had been averaging a monthly jobs gain of 212,000 in the previous 12 months, however part of the weak figure was put down to the loss of 17,000 jobs as a result of a supermarket store strike. There was some good news though as wage growth, crucial to the strength of the US economy, moved up slightly. Average hourly earnings were up 2.1% year over year. Jobs growth in professional and business services continued to lead the recovery, with an extra 47,000 jobs added in August. Most analysts described the figures as "disappointing", as employment growth was sharply below the previous six months, and only just above the minimum needed to keep up with the growth in the working age population. There were other areas of the labour market which suggest it's still weaker than the falling headline unemployment rate implies, particularly the numbers of people who want to work longer hours or have been unemployed for more than six months is unusually high. Analysts also that that the sluggish August figure will give the Fed pause for thought as they debate when to end the extraordinary support of the US economy. "This should take some wind out of the sails for the [Federal Open Market Committee] hawks," said one economist.

The Rest Of The World

Japan's economy contracted by 7.1% in Q2, more than the initial estimates, and revised downwards from the 6.8% reported in August. Most forecasts were for a contraction of around 7%. The contraction has been widely attributed to a hike in the nation's sales tax, which rose from 5% to 8% in April. The official GDP figure of 7.1% is an annualised number. In quarterly terms, the economy, shrank by 1.8% in Q2, compared to growth of 1.5% in Q1. Consumers spent more in Q1, in an attempt to beat the sales tax hike introduced in April, which is what economists say negatively impacted growth in the second quarter. The latest data from Japan's government showed households spending and that factory output staying flat in July. Retail sales in July were up 0.5% from a year earlier, after a fall of 0.6% in June, however most economists feel that the current economic landscape will lead to the government introducing even more reforms.

Markets, Swaps. Libor, Gold, Sterling.

UK Swap Rates

Date	2 Year		3 Year		5 Year		10 Year		25 Year	
Fri 5th	1.22	(-0.03)	1.55	(-0.03)	1.98	(-0.03)	2.51	(-0.02)	2.96	(same)
Thurs 4th	1.25	(-0.01)	1.58	(same)	2.01	(same)	2.53	(+0.01)	2.96	(+0.01)
Wed 3rd	1.26	(+0.02)	1.58	(+0.02)	2.01	(+0.03)	2.52	(+0.03)	2.95	(+0.04)
Tues 2nd	1.24	(+0.01)	1.56	(+0.02)	1.98	(+0.03)	2.49	(+0.04)	2.91	(+0.06)
Mon 1st	1.23	(same)	1.54	(same)	1.95	(+0.01)	2.45	(+0.01)	2.85	(+0.01)
Fri 29th	1.23	(-0.02)	1.54	(-0.01)	1.94	(same)	2.44	(+0.01)	2.84	(-0.01)
Thurs 28th	1.25	(same)	1.55	(same)	1.94	(same)	2.43	(-0.02)	2.85	(-0.03)
Wed 27th	1.25	(-0.01)	1.55	(-0.03)	1.94	(-0.05)	2.45	(-0.06)	2.88	(-0.05)
Tues 26th	1.26	(-0.01)	1.58	(-0.01)	1.99	(-0.04)	2.51	(-0.06)	2.93	(-0.05)
Mon 25th	1.27	(same)	1.59	(same)	2.03	(same)	2.57	(same)	2.98	(same)

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Fri 5th	0.50	(same)	0.56	(same)	0.71	(same)	1.05	(same)
Thurs 4th	0.50	(same)	0.56	(same)	0.71	(+0.01)	1.05	(same)
Wed 3rd	0.50	(same)	0.56	(same)	0.70	(-0.01)	1.05	(same)
Tues 2nd	0.50	(same)	0.56	(same)	0.71	(+0.01)	1.05	(same)
Mon 1st	0.50	(same)	0.56	(same)	0.70	(same)	1.05	(same)
Fri 29th	0.50	(same)	0.56	(same)	0.70	(same)	1.05	(same)
Thurs 28th	0.50	(same)	0.56	(same)	0.70	(same)	1.05	(same)
Wed 27th	0.50	(same)	0.56	(same)	0.70	(same)	1.05	(same)
Tues 26th	0.50	(same)	0.56	(same)	0.70	(same)	1.05	(same)
Mon 25th	0.50	(same)	0.56	(same)	0.70	(same)	1.05	(same)

Financial Markets – 29th August – 8th September

Index	22/08/2014	This Week	% Change
FTSE 100	6,797.16	6,785.49	-0.17%
Dax	9,437.99	9,737.60	+3.17%
CAC 40	4,369.25	4,471.98	+2.35%

Index	29/08/2014	This Week	% Change
Dow Jones	17,076.26	17,137.36	+0.36%
S&P 500	1,999.59	2,007.71	+0.41%
Nikkei	15,424.59	15,705.11	+1.82%
Hang Seng	24,742.06	25,190.45	+1.81%
Shanghai Composite	2,217.20	2,326.43	+4.93%
Sydney	5,624.60	5,578.90	-0.81%

Gold

	Price	Change	%
Forex Gold Index $/oz	1266.00	-9.25	-0.73

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	1.24540	-0.01530	-1.21	1.27800	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.61180	-0.04760	-2.87	1.71520	1.44550