7th November 2014

Market Report

Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 4th December)
- ECB - Maintained at to 0.05% - (next decision 4th December)

The Bank of England's deputy governor Sir Jon Cunliffe has said that interest rates can be kept at their current record low level for longer than first thought. He said that weak pay and low inflation together with slower UK GDP and the deteriorating prospects for the global economy meant the BoE should remain "cautious". He also warned the financial crisis may have permanently depressed pay. "The softening in the pay and inflation data, together with the weaker external environment, for me implies that we can afford to maintain the current degree of monetary stimulus for a longer period than previously thought," said Sir Jon, adding that since the financial crisis, workers appeared resigned to accepting lower pay. "The sharpness of the recession and the years of austerity that have followed it, appear to have caused a shift in the psychology of UK workers. There appears, for the present at least, to be an acceptance that pre-crisis pay levels are no longer achievable," he said. Sir Jon is the latest in a series of MPC members to say that rates should stay low for the time being. "The likelihood of a near-term interest rate hike from the Bank of England is rapidly receding," said one economist.

Bank and Building Societies

The Competition and Markets Authority (CMA) has announced that it will launch a full competition inquiry into the market for current accounts and small business banking. The inquiry will investigate the difficulties customers face in switching banks, along with the lack of smaller competitors to the "big four" High Street names. The probe will also look at lending to small and medium-sized businesses. Some of the bigger banks have claimed that the inquiry is unnecessary, with Barclays saying it felt the review was "not appropriate at this time", adding that: "Various developments, innovations and stimuli are changing the competitive landscape in relation to both [personal current accounts] and [small and medium enterprises] banking, and these must be given time to mature." Lloyds also stated that whilst it would work with the CMA, it did "not consider that such a reference is necessary". HSBC is also concerned that the CMA has previously "taken a backward looking view" of both current accounts and small business lending. The British Chambers of Commerce said it welcomed the review saying, "For many years Britain's dysfunctional banking sector has struggled to meet the needs of [small and medium enterprises], impeding the growth prospects of some of our most promising young companies." The inquiry will take 18 months to complete.

Housing / Mortgage Market

The Land Registry has revealed that property prices in England and Wales fell by 0.2% in September, the biggest monthly fall in nearly a year. They also said that annual property price inflation also fell, down from 8.4% in August, to 7.2% in September. It's the first time since May 2013 that the annual rate has fallen, while the largest monthly fall was in Yorkshire and Humberside, where prices declined by 2.2%. The average house price is down from the peak of November 2007 when it stood at £181,324, to stand at £177,299 now. Most lenders and analysts are now of the opinion that the rate of house price inflation is definitely slowing, though the Land Registry data is significant, as they are based on actual sales, rather than mortgages, and include those properties purchased for cash, as well as those bought with a mortgage.

House Price change by region September 2014

Region	Monthly change	Annual change
East	1.4%	10.9%
South West	0.7%	7.1%
Wales	0.4%	4.3%
South East	- 0.2%	9.7%
North East	- 0.3%	1.6%
North West	- 0.5%	4.3%
London	- 0.7%	18.4%
East Midlands	- 0.8%	6.0%
West Midlands	- 1.3%	4.3%
Yorkshire and Humber	- 2.2%	1.4%
ENGLAND AND WALES	- 0.2%	7.2%

source: Land Registry

Most economists agree that there's mounting evidence that "house prices and activity have at least temporarily come off the boil", and feel that the stricter mortgage lending rules, plus fears over when the bank rate will go up are behind the cooling of the market. Most also feel that uncertainty over the so-called "Mansion Tax" that both Labour and the Lim-Dem's are proposing is hitting the top end of the market (£2million plus)

The Bank Of England is also saying that the number of mortgages approved has fallen to its lowest level in more than a year. The September figures show that 61,267 people had a mortgage granted in the month, which is the lowest since July 2013, and significantly down on August's 64,054 approvals. Overall, the figures show a drop in lending of 8.7% on a year ago, with the introduction of tougher rules to get a mortgage in April, being blamed for much of the drop. Remortgage approvals were also down 13% year-on-year, from 35,292 in September 2013 to 30,500 last month, while approvals for other lending, including further advances, plunged 28.1% from 12,865 to 9,241 over the same period. Capital Economics said they were surprised by the figures. "Given that the regulations came into force in April, the continued weakness in lending is becoming more of a puzzle," they said, and are confident that the "weak patch" will not last much longer.

Nationwide's latest property price survey has shown price growth is continuing to show signs of slowing down. The lender said property price inflation slowed to 9.0% in October on an annual basis, down from 9.4% in September, suggesting the market has "lost momentum". They also said that the trend may continue in the near term, especially in London. Monthly house prices rose by 0.5% in October, with the average property now at £189,333. Nationwide's chief economist, said: "A variety of indicators suggest that the market has lost momentum. The number of mortgages approved for house purchase in September was almost 20% below the level prevailing at the start of the year." However, despite the gradual slowdown in price growth, the broader economic outlook remains positive. Nationwide also cited the tougher mortgage lending rules under the Mortgage Market Review (MMR) in April as a prime reason for the slow-down, along with the worries over higher mortgage rates next year. One analyst said the "irrational exuberance" in the market appeared to have subsided. "The new lending rules introduced earlier in the year clearly triggered a slowdown, but since then I suspect some good old-fashioned common sense has also played a role."

The Halifax has also said that concern over interest rate rises could "curb" house buying intentions for the end of the year, and going into 2015. The lenders October price survey showed annual growth in property prices slowed to 8.8% last month. Prices were 0.4% lower in October than they were in September, with the average home now worth £186,135. Halifax said that borrowers were concerned about the effect of any rate rise on their monthly repayments. In Q3 prices were 0.8% higher than Q2, however, this was the slowest rise since December 2012. The lender also said that the economy was growing at a "healthy rate" and employment was rising, which should support housing demand over the coming months. "While the chances of an imminent interest rate hike may have receded, a recent Halifax survey found that many borrowers are concerned about the impact a rise could have on their monthly mortgage repayments over the next 12 months," said the Halifax, adding that: "This concern is likely to curb buying intentions." Many analysts say that slowing property price rises will help first-time buyers, however, many are still struggling to raise the amounts for a reasonable deposit, while paying rent and seeing minimal return on savings. Estate agents are also saying that some first-time buyers are delaying property purchases, in the belief that the market may continue to cool. One estate agent commented: "While it is too early to say if this is a pause or a plateau, the property market's fundamentals are strong and there's every chance that after the Christmas lull it will return to growth - albeit at a more sensible level than that seen this year."

UK

The Markit UK manufacturing Purchasing Managers' Index (PMI) has shown that UK manufacturing activity grew at its fastest pace for three months in October, despite a sharp fall in export orders. The index reached 53.2 in October from 51.5 in September. A figure above 50 indicates growth. However, despite the rise, export orders fell at their fastest pace since January 2013, as Markit said "a near stagnant" eurozone economy was to blame for the drop. The strength of sterling against the euro also hit sales, while some firms also mentioned slower growth in other key markets, such as the US and China. Markit said the pick-up in overall growth, which was a sharp turnaround from September slowest growth for 17 months, was primarily a reflection of the resilience of the UK market. The PMI survey also found that average output prices rose at the slowest pace in 16 months, with the number of jobs created in the industry accelerated last month, with employees up sharply at small and medium-sized businesses, but steady at larger firms. Markit, said the October report was a "positive marker" for the start of Q4, and called the performance "a mini-recovery" for the sector. "It is positive to see the sector break its recent sequence of slower growth. Continued growth of employment, especially at SMEs, suggests that the recovery in the labour market is holding sway," they added. Economists described the performance as better than expected. "Exports are important to the manufacturing sector, but the majority of output is produced for domestic consumption. In that respect, continued high levels of confidence among UK consumers and plenty of evidence that domestic demand is growing at a robust rate is good news," said accountancy firm EY, while EEF, the manufacturers' organisation, said the sector looked "pretty resilient".

The purchasing managers' index from Markit/CIPS has revealed that growth in the services sector slowed to a 17-month low in October, with fears over the strength of the economy denting confidence. The index fell by more than expected to 56.2 from 58.7 in September, though figures over 50 still indicates expansion. Markit’s chief economist said the slowdown eased pressure to raise interest rates. "[It] knocks the prospect of interest rate hikes firmly on the head," he said.

Other PMI surveys for October showed that growth in construction slipped to a five-month low, and Markit's composite PMI, a broader gauge of the economy that combines services, manufacturing and construction industries, fell to 56.4 from 58.1, its lowest level since June 2013. Markit said the latest surveys added to "an increasingly downbeat flow of economic data" which had "thrown a cloud of uncertainty over the outlook". "The surveys therefore suggest that the Bank of England will wait to gauge the full extent of the slowdown before making any decisions on policy," they added. "The picture is by no means weak, but it is weaker. The drop in the service and construction sector PMIs this week is consistent with our view that UK growth will slow a little over the next few quarters," said UBS economist David Tinsley. "For the Monetary Policy Committee meeting this week, this data is another reason for some caution," he added.

Europe

The European Commission has cut the GDP forecast for the eurozone from 1.2% to just 0.8% this year, with 2015 also slashed from 1.7% to 1.1%. The EU vice president said "the economic and employment situation is not improving fast enough", as the latest report predicts inflation in the eurozone will continue to be low and employment remain high. Also continuing weakness in France and Italy would keep the brakes on recovery. The EU added that the eurozone's economy won’t reach a growth rate of 1.7% until 2016. The DG of the commission's economics department said the roots of the eurozone's troubles were in the global credit crunch of 2008. "The slowdown in Europe has occurred as the legacy of the global financial and economic crisis lingers," he said. "We see growth... coming to a stop in Germany... protracted stagnation in France and contraction in Italy." Eurozone inflation is forecast to be 0.5% this year, 0.8% in 2015 and 1.5% in 2016, and although these figures are well below the ECB's target of close to 2%, it means that deflation, considered at least as dangerous as high inflation, should be averted.

The latest Markit Purchasing Managers' Index of factory activity has shown that manufacturing growth in the eurozone was slower than expected in October with price cutting failing to lift orders. October’s index was 50.6, better than September's 50.3, and although readings above 50 indicates growth, the figure was below initial estimates for the month. Germany returned to modest growth, and Spain saw its eleventh straight month of growth, however both France and Italy contracted. "The performance of eurozone manufacturing remained broadly flat at the start of the final quarter," said Markit, adding: "Manufacturing is therefore unlikely to provide any meaningful boost to the currency union's anaemic GDP growth. Perhaps most worrying is the trend in new orders, a key bellwether of future output growth, which declined for the second month running. It is hard to see any significant near-term boost to performance." Although German manufacturing returned to growth, with a PMI reading of 51.4 in October, up from 49.9 the month before, this was below Markit's initial forecast. France slipped to 48.5 from September's 48.8, and Italy dropped to 49 in October from 50.7 the month before.

The Istat statistics agency has reported that Italy's economy will shrink by 0.3% this year before edging back to growth in 2015. This is against the previously forecast growth this year of 0.6%.

The Ifo think tank's closely-watched Business Climate Index has revealed that German business confidence has fallen to its lowest level in almost two years, fuelling concerns about the strength of Europe's largest economy. The index slipped to 103.2 in October, down from 104.7 in the previous month. "The outlook for the German economy deteriorated once again," Ifo said, and last month the government sharply cut its GDP forecast for this year and 2015, on the back of weak export and industrial output figures. "Things have not gone well for German industry and there are no bright spots for industry," said the Ifo.

Following the latest Ifo survey, analysts admitted the recent raft of weaker data was adding to fears about wider issues outside of Germany. "We're in a downward spiral in terms of mood," said one economist. "The original mood killers - geopolitics, eurozone weakness, German economic policy and deflation concerns - have led to big downward revisions of forecasts and the weaker economic expectations are now weighing on sentiment."

The Federal Labour Office has said that unemployment in Germany fell in October, beating predictions of a slight rise. The number of people unemployed in Germany fell by 22,000 to 2.89 million in October. The figures were adjusted for seasonal variations, which means that the decline keeps the unemployment rate steady at 6.7%. The fall was good news as higher employment, moderate inflation and rising wages are helping to prop up domestic demand in Germany. Figures also showed German inflation down to an annual rate of 0.7% in October, down 0.3% on September.

German industrial production rose less than expected in September, another indicator that Europe's biggest economy is continuing to struggle. Output rose by 1.4% in September after the 3.1% plunge in August, however the rebound was less than the 2% rise many economists had been predicting. German manufacturing output rose 1.7%, but construction fell 1.2%, though there was better on exports, which climbed 5.5% on the month, after a 5.8% fall in August - the largest drop in more than five years. Imports rose 5.4% after two consecutive months of decline.

US

The Commerce Dept has reported that the US economy grew at an annual rate of 3.5% in Q3, which was better than the 3% pace expected by many economists, and follows the 4.6% recorded in Q2. Strong export growth and higher government spending helped to boost growth in Q3."Today's number represents a return to a healthy-looking trend. The most recent IMF forecasts suggest the US economy will grow 3.1% next year and 3.0% in 2016, and these could be revised further upwards in the coming months," said a senior economist at Hargreaves Lansdown. Growth was lifted in Q3 by a sharp increase in government spending, which itself was boosted by a surge in defence expenditure, and aided by a sharp increase in exports up at an annual rate of 7.8%. However, there are worries that this pace can't be maintained as important export markets for the US are struggling. Growth in many European countries is stagnant and the Chinese economy is slowing down. "Conditions are in place for a pick-up in the pace of consumption growth," said Capital Economics, "Real personal disposable incomes increased by a healthy 2.7% in the third quarter and, with the prospect of further big gains in employment and the impact of the slump in energy prices, real incomes should enjoy an even bigger gain in the fourth quarter."

As expected the Fed has announced it's ending its quantitative easing (QE) programme, as it was confident the economic recovery would continue, despite a global economic slowdown. The Fed said that targets for inflation and reduction in unemployment were on track, however the statement also suggested that while the jobs market is strengthening, it's still not back to normal, which is why interest rates are being held. "The Committee continues to see sufficient underlying strength in the broader economy to support ongoing progress toward maximum employment in a context of price stability," the Fed said. Analysts said the news was in line with expectations, however there are still concerns that although the US economy is improving, the moderate unemployment rate does not tell the whole story. "There are still many people working part-time who would rather have longer hours, and many people not looking for jobs who are not counted as unemployed but would actually like to work. And long term unemployment is still a serious problem." Also, although recent data points to increase consumer and business spending, the housing market is still struggling and pay is stagnant. There are also worries about the long-term impact of the US's persistent low inflation, which risks undermining consumer spending as people delay purchases in the hope that prices will fall further.

The Rest Of The World

China's Purchasing Managers Index (PMI) has shown that manufacturing growth slowed in October, reinforcing concerns about a slowdown in the wider economy. The index fell to a lower-than-expected 50.8, from 51.1 in September (Scores above 50 represents growth). The latest figures follow other data showing the wider Chinese economy growing at its slowest pace for more than five years. Growth in Q3 was 7.3% compared with a year earlier, down from 7.5% in Q2. "There remains downward pressure on the economy, and monetary policy will remain easy," said one analyst. The government aims to achieve 7.5% GDP this year, although many analysts believe it will struggle to meet this target, with speculation that further steps are required to boost growth.

Markets, Swaps. Libor, Gold, Sterling.

UK Swap Rates

Date	2 Year		3 Year		5 Year		10 Year		25 Year	
Thurs 6th	1.13	(-0.01)	1.41	(-0.01)	1.81	(-0.02)	2.33	(-0.02)	2.78	(-0.04)
Wed 5th	1.14	(-0.01)	1.42	(-0.02)	1.83	(-0.01)	2.35	(-0.01)	2.82	(-0.02)
Tues 4th	1.15	(same)	1.44	(same)	1.84	(same)	2.36	(same)	2.82	(same)
Mon 3rd	1.15	(+0.03)	1.44	(+0.04)	1.84	(+0.03)	2.36	(+0.02)	2.82	(+0.01)
Fri 31st	1.12	(+0.02)	1.40	(+0.03)	1.81	(+0.03)	2.34	(+0.02)	2.81	(+0.02)
Thurs 30th	1.10	(+0.01)	1.37	(same)	1.78	(same)	2.32	(-0.02)	2.79	(+0.03)
Wed 29th	1.09	(same)	1.37	(same)	1.78	(+0.01)	2.34	(+0.02)	2.76	(+0.01)
Tues 28th	1.09	(same)	1.37	(+0.01)	1.78	(+0.02)	2.32	(+0.02)	2.75	(-0.01)
Mon 27th	1.09	(-0.03)	1.36	(-0.03)	1.76	(-0.03)	2.30	(-0.03)	2.76	(-0.03)
Fri 24th	1.12	(same)	1.39	(same)	1.79	(same)	2.33	(same)	2.79	(same)

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 6th	0.51	(same)	0.56	(same)	0.69	(same)	1.01	(same)
Wed 5th	0.51	(same)	0.56	(same)	0.69	(same)	1.01	(same)
Tues 4th	0.51	(same)	0.55	(same)	0.69	(-0.01)	1.01	(+0.01)
Mon 3rd	0.51	(same)	0.55	(same)	0.69	(same)	1.00	(same)
Fri 31st	0.51	(same)	0.55	(same)	0.69	(same)	1.00	(same)
Thurs 30th	0.51	(same)	0.55	(-0.01)	0.69	(same)	1.00	(same)
Wed 29th	0.51	(same)	0.56	(same)	0.69	(same)	1.00	(same)
Tues 28th	0.51	(+0.01)	0.56	(+0.01)	0.69	(+0.01)	1.00	(same)
Mon 27th	0.50	(same)	0.55	(same)	0.68	(same)	1.00	(same)
Fri 24th	0.50	(same)	0.55	(same)	0.68	(same)	1.00	(same)

Financial Markets – 27th October – 7th November

Index	17/10/2014	This Week	% Change
FTSE 100	6,731.36	6,597.35	-1.99%
Dax	8,935.71	9,401.12	+5.21%
CAC 40	4,107.88	4,224.12	+2.83%

Index	27/10/2014	This Week	% Change
Dow Jones	16,805.41	17,554.47	+4.45%
S&P 500	1,964.58	2,031.21	+3.39%
Nikkei	15,388.72	16,880.38	+9.69%
Hang Seng	23,143.23	23,550.24	+1.76%
Shanghai Composite	2,290.44	2,418.17	+5.57%
Sydney	5,441.90	5,522.10	+1.47%

Gold

	Price	Change	%
Forex Gold Index $/oz	1145.00	-85.50	-6.95

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	1.27640	+0.00490	+0.38	1.27800	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.58240	-0.02830	-1.75	1.71520	1.44550