JohnCharcol
more than mortgages

9th November 2015

Market Report

Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 10th December)
- ECB - Maintained at to 0.05% - (next decision 4th December)

Super Thursday and no change from the MPC this month as expected, with maintenance of the bank rate at 0.5%, and the also expected 8 – 1 vote. The minutes said that: “All members agree that, given the likely persistence of the headwinds weighing on the economy, when bank rate does begin to rise, it is expected to do so more gradually and to a lower level than in recent cycles. This guidance is an expectation, not a promise. The actual path bank rate will follow over the next few years will depend on the economic circumstances.” The bank also released its “quarterly inflation report” which indicated that the first rise in the bank rate will be later than currently predicted. The Bank said that the outlook for global growth had weakened recently, which in turn had cut the risks of inflation. Many economists are now of the opinion that rates won’t start to rise until Q2 of 2016, and possibly even later. The report claimed that emerging market economies were responsible for the weaker outlook, saying growth in those regions had "slowed markedly". China got a special mention, with concerns that although the economy is growing at a slow pace as it rebalances towards consumption, “there is significant uncertainty about how smooth that rebalancing will be and a risk that growth slows more sharply.” It’s estimated that if Chinese GDP should fall by 3%, then the UK’s output would be hit by 0.3% as a result. The report also said that while the Bank still expects inflation to move above its 2% target in two years, it says that risks "lie slightly to the downside" during that time period, which is basically warning that that inflation won’t rise as quickly as the bank initially forecast. Governor Mr Carney described the UK economy as "robust" and "resilient", however the bank says that lower energy costs, along with food and other imported good are likely to keep the CPI under 1% until Q3 of next. Economists feels that the report indicates the central bank remains relaxed (dovish), as to when the bank rate will need to be raised. "This is a lot more dovish than most people were expecting," commented one economist. "That magic first rate rise has been kicked into the long grass once again. Only a few months ago, the Bank was saying that inflation wasn't picking up because of the low oil price. Now it's emerging markets. You have to wonder what their next reason will be," he added. At the press conference, Mr Carney was quizzed about the seemingly never ending rise of property prices and unsecured credit growth. Mr Carney responded that while he was "conscious" of those moves, he highlighted that standards of lending in the housing market had improved and that the number of distressed households continued to reduce. However, there was a warning from the Institute of Directors (IoD) who said that: "There is genuine apprehension over asset prices, the misallocation of capital and consumer debt. Borrowing is comfortably below the unsustainable pre-crisis levels, but with debt once against rising there is a need for vigilance. The question is, will the Bank look back on this unprecedented period of extraordinary monetary policy and wish they had acted sooner? The path of inaction may seem easier today, but maintaining rates this low, for this long, could prove a much riskier decision tomorrow." IHS Global Insight’s chief UK economist at said: "The first interest rate hike from 0.50% to 0.75% is still most likely to happen in May 2016 - but the risks now seem to be that the increase could be later than this rather than before it. As things currently stand, an interest rate hike in the first quarter of 2016 looks unlikely". Capital Economics, had a similar stance saying that: "As a result of all today's announcements, we are comfortable with our view that rates will rise in Q2 next year (and subsequently increase very slowly)".

The Bank of England deputy governor Dame Nemat Shafik has said that the use of interest rates is not the right way “to deal with problems in the housing market." "We should use other tools, and fortunately we have other tools," she said, adding that the bank could cut interest rates below the current 0.5% if needed. Dame Nemat said: "Just last month we looked at this again and we said that actually we do have room to lower interest rates if we had to and we could do more quantitative easing if we had to and in fact the governor's letter to the chancellor this month explains precisely that. But the fact of the matter is: at the moment we don't need any more ammo, because the economy is growing above trend. But what we have said is that we have it there if we need it." On the controversial subject of household borrowing, she highlighted some research that the bank has carried out, which claimed that if the MPC had raised interest rates by 2% before the financial crisis, then although it would have reduced household debt by 2%, it would have cut economic growth by 2.6%. This result, supported the use of other tools to control the housing market. "We have a FPC [Financial Policy Committee], which works alongside the MPC [Monetary Policy Committee]. It has tools to do things like put limits on the amount of indebtedness that households can take on, it can reduce banks' ability to lend very risky loans, so for us we need to use the right tools for the right problem." With regard to household debt levels, she said whilst they were still high, they had come down a long way as a share of income. "It used to be about 155% at the time of the crisis, and it's come down to 135%. It's plateaued recently, but we do think it has improved."

Bank and Building Societies

Nothing this week

Housing / Mortgage Market

Halifax's October property price survey, has revealed that growth in prices picked up speed last month, due to "improving economic conditions". The lender said that annually prices increased by 9.7% last month, which was up from 8.6% in September, whilst monthly they were up 1.1%, after the 0.9% drop in September. The latest figures left the average price of a property in the UK to a new record high of £205,240. Halifax's chief housing economist, said: "Improving economic conditions and household finances, together with sustained low mortgage rates, have boosted housing demand during 2015. Strengthening demand is filtering through into higher sales levels, although the ongoing shortage of supply is acting as a significant constraint on activity." Halifax also said that with demand still likely to outstrip supply by a long way over the coming months, this will be "maintaining upward pressure on house prices". A former chairman of the RICS said: "There is not enough balance in the housing market and there are still significant barriers to entry, despite lower mortgage rates. If prices continue their upwards trend, it doesn't bode well for those trying to get themselves into a new home early in the new year. Prices are high and supply low – that imbalance makes life very tricky for buyers."

Brokers have reported that they are experiencing 'a degree of positivity' from lenders to try & help those borrowers struggling with the loan-to-income (LTI) restrictions that came in last year. In a recent poll 42% of brokers said that that tightening on lending above 4.5 times income has had a 'somewhat significant' impact on borrowers, 27% said the effect has been 'very significant', while 31% say the changes haven't had any impact at all. Brokers have said that they've seen a more positive attitude towards affordability from lenders in recent weeks. One commented: "I've generally been down-selling the opportunities and telling clients how tough the current market is. But then we put the income figures into lenders' affordability calculators and we're quite surprised by what's coming back." Some lenders have improved the way they look at bonuses / commission, and will now take 100% if it can be proved over three or six months, whilst another will consider 100% if supported by the most recent P60. This means that lenders can use more of the income at the 4.5 x multiple cap.

UK

The October Markit/CIPS UK manufacturing (PMI) is showing the manufacturing sector having its best month for more than a year. The index came in at 55.5, up from 51.8 in September (figures over 50 suggest expansion). The figure was way better than analysts had been predicting, and was the highest since June 2014. Surprisingly, the good news came despite the deterioration in the steel sector. "The revival provides a tentative suggestion that the manufacturers are pulling out of their recent funk, having been dogged by recession since the start of the year, and may help boost economic growth in the fourth quarter," said a senior economist at Markit. "The big question now is whether this bounceback is a one-off or the start of a sustained re-emergence from recession." Manufacturing had contracted in the last two quarters, which using the standard definition, meant it was in recession. One economist commented that the "figures offer some hope that the sector may now have passed the worst. However, we will need to see a few more upbeat surveys before a renaissance in UK manufacturing can be declared."The ONS figures also backed up the improvement in September, with a 0.8% rise, though this is still down 0.6% from the same month last year. The wider measure of industrial production fell 0.2% in September, but was 1.1% higher than a year earlier.

The ONS also reported that the September goods trade deficit narrowed to £9.35billion, from the £10.79billion gap in August. The deficit in goods and services narrowed to £1.4billion in September from the £2.9billion in August, however, for Q3, the deficit widened to £8.5billion, from a gap of £5.1billion in the previous quarter. The ONS figures showed industrial production up 0.2% in the July-to-September period, slightly below initial estimates of 0.3%, while manufacturing output fell by 0.4%. The manufacturers' organisation, the EEF, said: "While manufacturing contracted in the last quarter, there are signs that some parts of industry at least were mounting a comeback after a summer lull." They also said that there were risks from the economic slowdown happening elsewhere around the world: "Another disappointing set of trade figures for manufacturing show that these effects are already being felt, with a significant fall in goods exports to China over the past three months."

The Markit/CIPS service sector purchasing managers' index (PMI) for October has revealed growth in the service sector accelerated last month. The index hit 54.9 from September's 53.3. (Figures above 50 indicates growth) Markit said the improvement is the first in four months, although the pace remained "relatively subdued". The survey also found that employment growth reached a new hit a five month. The service sector is of particular importance, as it accounts for around 75% of activity in the private sector. Markit's chief economist said: "Dovish policymakers will note the ongoing lack of inflationary pressures in October, suggesting that there is no need to rush into raising rates."

Europe

The EU is forecasting that the economic recovery within the eurozone & wider EU area will continue at "a modest pace" next year. The 28 Nation EU economy is predicted to grow by 1.9% this year, 2.0% in 2016 and 2.1% in 2017. The eurozone is forecast to come in at 1.6% this year, 1.8% next year and 1.9% in 2017. The EU said growth was being aided by a number factors, including low oil prices, a weaker euro exchange rate, plus the ECB's bond-buying programme. However, the report warned that there were new challenges to growth on the horizon, including China's slowdown and in the emerging market economies, along with geopolitical tensions. The EU Commissioner Pierre Moscovici said EU economies would "see growth rising and unemployment and fiscal deficits falling", but the effects would be unevenly spread across member states, and he did highlight that the global economic outlook remained uncertain.

US

The latest US jobs figures has reignited expectations of a rise in interest rates at the Fed's next meeting in December. The US economy added 271,000 jobs in October, way in excess of the 185,000 jobs that economists had been forecasting, and this strong figure will put pressure on the Fed to raise rates. "That was an astounding number. It's pretty clear that the Fed would be justified in hiking in December, if the economy doesn't hit another air pocket," said one economist. The Bureau of Labor Statistics, said that the jobless rate fell to 5%, its lowest rate in seven-and-a-half years, whilst there was an upwards net revision of 12,000 jobs in August and September. Wage growth was also strong in October, with average hourly earnings up 2.5% on a year earlier. The strength of the labour market is one of the key considerations the Fed looks at when deciding whether to move interest rates. Fed chair Janet Yellen has already said that a rise in interest rates in December was "a live possibility", which some economists think will be the start of a series of rate rises. However, it has been pointed out that while the latest jobs figure is a very strong one, and the headline unemployment rate is also pretty good, there are a number of persistent weaknesses. The percentage of the population over 16 years of age who are in employment is now 53.9% against the 63% plus before the financial crisis. Also many Americans are working fewer hours than they want, whilst others aren't counted in the statistics because they aren't currently looking for work, but would do if they thought they had a better chance of success.

T**he Institute for Supply Management (ISM) has said the US manufacturing grew at its slowest pace for two years in October.** The report marks a fourth consecutive month of declines in factory activity, with growth at its slowest pace since May 2013. The index stood at 50.1. Any number above 50 is considered expansion. The ISM said that the strength of the dollar has damaged exports and resulted in a number of job cuts at plants across the country, with the number of manufacturing jobs declining by 8% last month. However, there was some good news as the index for new orders rose to 52.9 up from 50.1, which would suggest the slowdown may end in the coming months.

The Commerce Department also reported a seven year high in construction spending, with new homes, highways, offices and other facilities up 14.1% year-on-year. Both private and public sector spending was up, with private home construction - the largest section of the industry- up 17.2% compared to the previous year.

The Rest Of The World

The Purchasing Managers' Index (PMI) for October shows Chinese manufacturing contracting for the third month in a row. The index was unchanged at 49.8 last month. (Figures below 50 indicate contractions). Economists had expected October's PMI to show a pick-up to a reading of 50. "Because of the recent weak recovery in the global economy and downward pressure in the domestic economy, manufacturers still face a severe import and export situation," said China's National Bureau of Statistics. Economists tend to think there could be further measures to come. "While the PMI has stabilised, it is too early to confirm a bottoming out," one said.

Chinese imports in October dropped for the twelfth month in a row keeping concerns over the Chinese economy in the headlines. Imports were down by 18.8% from a year earlier to $130.8billion, albeit a slight improvement on September's 20.4% decline. Exports also dropped 6.9% to $192.4billion, the fourth consecutive monthly fall, as overseas demand eased. It left China with its highest ever trade surplus on record at $61.6billion. The government has been trying to make the economy more consumer-led and less reliant on exports, however the continuing fall in imports would indicate that domestic demand is not as strong as the authorities are aiming for. At the start of the year, the government set a target of 6% trade growth at the start of

the year, but total trade for the world's second largest economy has now fallen by 8% in the first ten months. The Chinese President has also hinted that policymakers would accept slower GDP than the current 7% target.

Markets, Swaps. Libor, Gold, Sterling

UK Swap Rates

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Fri 6th	1.06	(+0.04)	1.27	(+0.05)	1.59	(+0.06)	2.01	(+0.05)	2.24	(+0.05)
Thurs 5th	1.02	(+0.01)	1.22	(+0.03)	1.53	(+0.01)	1.96	(+0.01)	2.19	(same)
Wed 4th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tues 3rd	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mon 2nd	1.01	(+0.01)	1.19	(+0.01)	1.52	(+0.02)	1.95	(+0.01)	2.19	(+0.01)
Fri 30th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Thurs 29th	1.00	(+0.07)	1.18	(+0.09)	1.50	(+0.10)	1.94	(+0.11)	2.18	(+0.08)
Wed 28th	0.93	(+0.01)	1.09	(+0.01)	1.40	(+0.03)	1.83	(+0.03)	2.10	(+0.03)
Tues 27th	0.92	(-0.02)	1.08	(-0.04)	1.37	(-0.04)	1.80	(-0.05)	2.07	(-0.05)
Mon 26th	0.94	(-0.01)	1.12	(same)	1.41	(-0.03)	1.85	(-0.05)	2.12	(-0.05)

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Fri 6th	0.51	(same)	0.58	(same)	0.73	(-0.01)	1.03	(-0.03)
Thurs 5th	0.51	(same)	0.58	(same)	0.74	(+0.01)	1.06	(+0.02)
Wed 4th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tues 3rd	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mon 2nd	0.51	(same)	0.58	(same)	0.73	(-0.01)	1.04	(+0.02)
Fri 30th	0.51	(same)	0.58	(same)	0.74	(same)	1.02	(same)
Thurs 29th	0.51	(same)	0.58	(same)	0.74	(same)	1.02	(same)
Wed 28th	0.51	(same)	0.58	(same)	0.74	(same)	1.02	(-0.01)
Tues 27th	0.51	(same)	0.58	(same)	0.74	(same)	1.03	(+0.01)
Mon 26th	0.51	(same)	0.58	(same)	0.74	(same)	1.02	(same)

Financial Markets – 30th October – 6th / 9th November

Index	30/10/2015	This Week	% Change
FTSE 100	6,349.17	6,370.55	+0.34%
Dax	10,811.93	10,969.25	+1.46%
CAC 40	4,878.70	4,970.97	+1.89%

Index	30/10/2015	This Week	% Change
Dow Jones	17,751.53	17,910.33	+0.89%
S&P 500	2,087.10	2,099.20	+0.58%
Nikkei	19,083.10	19,642.74	+2.93%
Hang Seng	22,640.04	22,726.77	+0.38%
Shanghai Composite	3,382.56	3,646.88	+7.81%
Sydney	5,288.60	5,180.30	-2.01%

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Gold

	Price	Change	%
Forex Gold Index $/oz	1088.90	-53.45	-6.48

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	1.39890	-0.00040	-0.03	1.43680	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.50650	-0.03870	-2.50	1.71520	1.44550