10th July 2015

Market Report

Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 6th August)
- ECB - Maintained at to 0.05% - (next decision 6th August)

The MPC has kept the bank rate on hold again as expected, with analysts still saying that they don't expect any change until the middle of 2016. There's no real pressure to raise rates yet with inflation still near record lows (0.1% in May) however, this is expected to pick up towards the end of the year. There will be more detail on the committee's latest thoughts, when the minutes of the meeting are published on the 22nd July, and it will be interesting to see if any members voted for a raise this time. Research firm Markit, said: "No statement was made but, with inflation at just 0.1%, the Bank's inflation target of 2.0% is clearly still a long way off and, with 'Grexit' concerns casting a dark cloud of instability over the economic outlook, now is clearly not the time for central banks to be causing further uncertainty. " Also, from August, the MPC is to announce the bank rate decision and the minutes of the meeting on the same day.

Bank and Building Societies

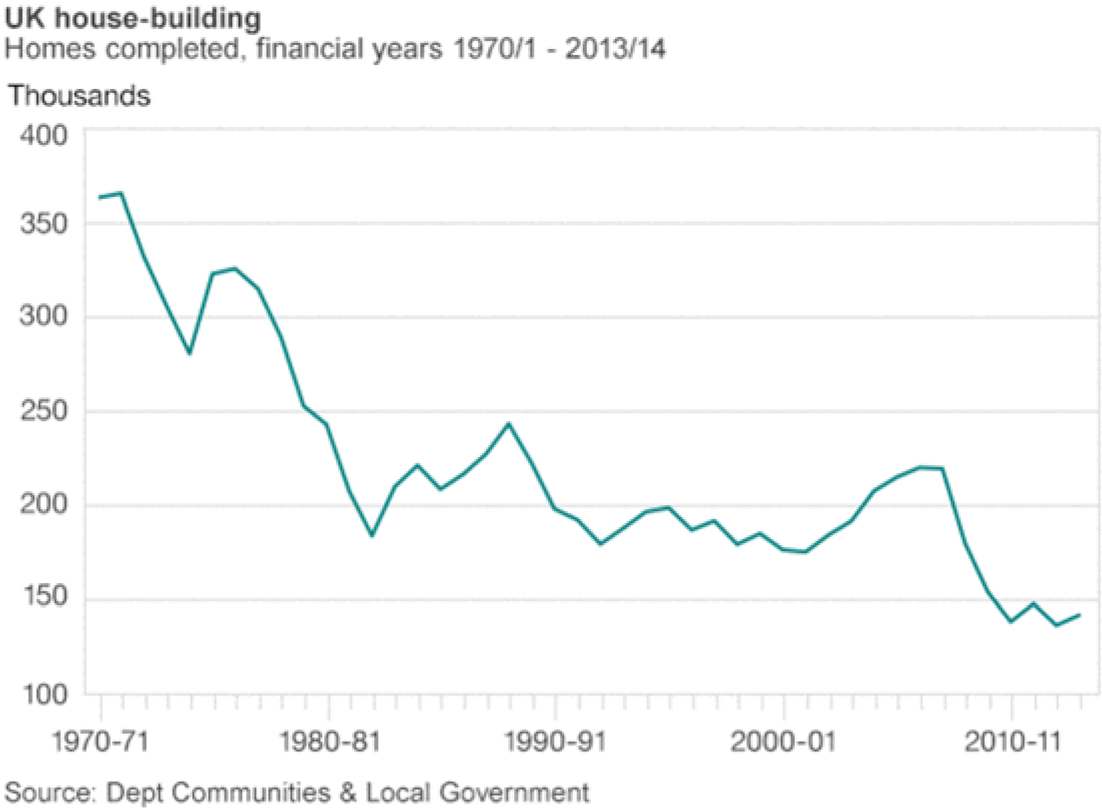
Nothing this week.

Housing / Mortgage Market

The Chancellor has announced a reduction in the tax relief that Buy to let landlords will receive on their mortgage interest payments. The move is an attempt to create a "level playing field" between homeowners and investors, and the change will be phased in over four years from April 2017. The maximum amount that landlords will now be able to claim will be at the basic rate of tax, currently 20%, whereas currently landlords can claim at the top level of tax they pay, which for the wealthiest is 45%. The Chancellor said the current system allows Buy to Let landlords "a huge advantage in the market", compared to residential home buyers, saying: "The better-off the landlord, the more tax relief they get." Buy to Let lending now accounts for over 15% of new mortgages, which the Bank of England is worried could pose a risk to the UK's financial stability. There has been some criticism of the move, with estate agents claiming that the changes to tax relief would hit many small and older private investors. "This is a major blow to a sector that is heavily reliant on private investors and who provide a crucial supply of property to the private rental sector," said one. They also warned that the move could reduce the supply of rental properties making it harder for people who wanted the flexibility of being able to rent rather than buy. The Council of Mortgage Lenders, said the fact that the change was being introduced slowly would soften the blow. "The phasing is important. We will need to understand whether this will have a behavioural impact on higher-rate buy-to-let landlords, but a four-year timetable does at least reduce the risk of sudden market shocks," they said.

Halifax has reported that the average cost of a property in the UK has exceeded £200,000 for the first time. They announced that property prices went up 1.7% in June against May, while annually they were up sharply from 8.6% in May to 9.6% last month. It leaves the average property price in the UK at £200,280, and the highest level ever recorded by Halifax's index. However the figures fly in the face of Nationwide's claim that house price inflation had fallen to 3.3% a year, with their average price at £195,055. Halifax added that the rise was still being driven by poor supply with the number of homes for sale at a record low. Halifax's housing economist said there were now signs of a recent "modest pick up in demand", adding: "Economic growth, higher employment, increasing real earnings growth and very low mortgage rates are all supporting housing demand." Capital Economics said: "A strong rise in June has pushed house prices above their pre-crisis peak according to the Halifax. With demand up on the back of rising employment and wages, and the stock of homes for sale restricted, further gains can be expected."

Under new rules just announced, developers could get automatic planning permission to build on disused industrial sites in England. Ministers would also get powers to seize disused land, while major housing projects could be fast-tracked, and rules on extensions in London relaxed. The plans are part of the overall plan to boost productivity in the UK. However, analysts have questioned whether there is enough brownfield land (land that has previously been developed but is vacant or derelict) available to meet the UK's housing needs over the next 15 years, and some critics are worried that local people will be denied a say over planning and effectively "nationalise" it. The proposals, which still must be approved by parliament will give automatic planning permission on all "suitable" brownfield sites under a new "zonal" system, while ministers could scrap the need for planning permission in London for developers who want to extend buildings to the height of neighbouring properties, which they claim will "add dynamism" to house building in the capital. Planning powers are also to be devolved to the mayors of London and Manchester, while enhanced compulsory purchase powers will allow more brownfield land to be made available for development. There would also be new sanctions for councils that do not deal with planning applications quickly enough, and the government would be able to intervene in councils' local development plans.



UK

The Chancellor has said that there'll be a years delay in his promise of a budget surplus. The Office for Budget Responsibility's (OBR) is now predicting a surplus of £10.0billion in 2019-20, against its earlier forecast of a surplus of £5.2billion in 2018-19. This has now been revised to a £6.4billion deficit. The OBR had described the March Budget plans as a rollercoaster rise because of the cuts in the first two years of parliament and increased spending in the last two years, however these plans have now been smoothed out, with more borrowing in each of the three years following 2015-16. The OBR said: "The new government has used its first Budget to loosen significantly the impending squeeze on public services spending that had been pencilled in by the coalition in March. This is being financed by welfare cuts, net tax increases and three years of higher government borrowing." There were minor revisions to the OBR's predictions for GDP, which are down from 2.5% to 2.4% this year, unchanged at 2.3% in 2016, and rising from 2.3% to 2.4% in 2017 & 2018 respectively.

In the budget the Chancellor has also said he will increase the threshold for inheritance tax on family homes worth up to £1million. The threshold for couples will rise from £650,000 after April 2017. The inheritance tax policy will be funded by limiting the amount of tax relief on pension contributions given to those earning more than £150,000 a year.

The ONS has said that industrial output saw a higher than expected rise in May with industrial production up 0.4% against April's 0.3% growth. Whilst the main driver was mining and quarrying (up 4.9%), manufacturing was again disappointing, slipping 0.6% month-on-month in May, and a further fall from April's 0.4% drop. In the three months to May, manufacturing growth slowed to 0.8% compared to a year ago to stand at the weakest rate since the three months to October 2013. The government has previously said Britain must address “its poor productivity” as “we don’t manufacture enough”. In April, UK manufacturing growth was 0.1%, against the euro area’s 0.08%. The British Chambers of Commerce chief economist has called on the Government to make “every effort” to encourage manufacturing firms to explore international export markets, including those beyond the EU. The BCC said: “While the UK economy will remain dependent on its dynamic services sector, manufacturing remains a vital sector for productivity, innovation and exports. “Although manufacturing is coping with very difficult global circumstances, the sector is facing serious structural problems. While eurozone growth prospects have improved recently, the weakness of the euro against the pound has made it harder for UK businesses to compete and Greece’s ongoing problems could exacerbate this.”

Europe

The Eurogroup has described the latest Greek proposals to securing their vital bailout package as "thorough", saying that a "major decision" could now be made at the eurozone finance meeting on Saturday (11th). The Greek PM will now put the plan, (ironically containing many of the elements rejected in the referendum) to a vote in parliament. The Eurogroup described the new proposals as "a thorough piece of text" adding that support from the Greek parliament would give it "more credibility". However, there still needs to be a plan to allow the banks to reopen within days, and it’s thought that the ECB just maintaining their Emergency Liquidity Assistance will be nowhere near enough to allow that to happen, then the Greek economy will implode, which in turn will render any bailout deal agreed irrelevant in weeks. The Italian PM said he was optimistic and hoped a deal could be struck on Saturday, while the French President said the new proposals were "serious and credible" and that the "Greeks have just shown their determination to remain in the eurozone". Unsurprisingly, the Germans who have been more pessimistic, would not comment in detail on the new plan. A Government spokesman said it was withholding judgment and waiting for the creditor institutions to give their opinion, while a finance ministry spokesman said Germany wouldn’t accept any reductions of debt that caused it more losses.

US

In an unusual move, the IMF has warned the Fed against raising interest rates this year. They feel that a rise risks adding to the growing economic and political threats to US growth. Their comments come against a background of many economists expecting a rate increase as early as September, although recent economic and jobs data has dampened those expectations. The IMF is also worried that US share prices were hitting unsustainable levels. A rate rise by the Fed would trigger increases in the value of the dollar, which the IMF feels could stall growth and impact across emerging markets. The IMF has said that "growth could be significantly debilitated" by another rise in the dollar, and that barring a major change in circumstances, then rates should be kept at the current levels "into the first half of 2016 with a gradual rise in the federal funds rate thereafter". Weaker global growth, including in China, would sap US exports and investment in certain sectors, the IMF said, adding: "Finally, risks from Russia/Ukraine, Greece or the Middle East represent an unpredictable wild card with negative, but difficult to quantify, effects for the US."

The Rest Of The World

The IMF has cut its forecast for global growth this year, as a result of a slowdown in the US economy, and is now predicting growth of 3.3% in 2015, against the previous forecast of 3.5%. The IMF has already cut its forecast for US GDP to 2.5% in 2015 from their earlier estimate of 3.1%, saying the US is a drag on the world economy due to "an unexpected output contraction". The IMF said the Greek crisis was having a only a marginal effect on the global economy and left its eurozone growth forecast for 2015 unchanged at 1.5%. They added that Germany should grow by 1.6% and France by 1.2%, are also unchanged from previous estimates. The Chinese GDP estimate is also left unchanged at 6.8%, despite the recent stock market volatility. Commenting on the Chinese stock market's wild swings, "The bubble has burst," said the IMF, though they didn’t say that China's stock market volatility would drag down the global economy. In 2016, the IMF expects global growth to strengthen to 3.8%.

The International Energy Agency (IEA) has said that oil prices may have further to fall, despite having stabilised and recovered slightly in recent months, due to a massive oversupply. The IEA said lower oil prices were likely to last well into 2016, adding that the global oil market was unable to absorb the huge volumes of oil now being produced. The current price of Brent crude is

$59 a barrel. "The oil market was massively oversupplied in the second quarter of 2015, and remains so today," the IEA said. "It is equally clear that the market's ability to absorb that oversupply is unlikely to last. Onshore storage space is limited," adding: "Something has to give." "The bottom of the market may still be ahead." Core members of the Organisation of Petroleum Exporting Countries (Opec) have continued to produce the same level of oil in the past year despite falling oil prices in an attempt to regain market share, and in the US, production has also soared in recent years, as fracking has revolutionised oil production in the country. Opec's response to the fall in prices was to refuse to cut production. Many Opec nations are able to tolerate a lower oil price despite losing money, however other nations such as Russia, are suffering greatly from damage the lower oil price is doing to their GDP.

UK Swap Rates

Markets, Swaps. Libor, Gold, Sterling

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Thurs 9th	1.06	(+0.03)	1.30	(+0.03)	1.66	(+0.04)	2.13	(+0.06)	2.39	(+0.06)
Wed 8th	1.03	(same)	1.27	(+0.01)	1.62	(+0.04)	2.07	(+0.05)	2.33	(+0.04)
Tues 7th	1.03	(-0.03)	1.26	(-0.09)	1.58	(-0.15)	2.02	(-0.19)	2.29	(-0.18)
Mon 6th	1.10	(+0.01)	1.35	(+0.01)	1.73	(+0.06)	2.21	(+0.04)	2.47	(+0.09)
Fri 3rd	1.10	(-0.01)	1.35	(-0.02)	1.71	(-0.03)	2.16	(-0.05)	2.42	(-0.03)
Thurs 2nd	1.11	(-0.05)	1.37	(-0.05)	1.74	(-0.06)	2.21	(-0.05)	2.45	(-0.03)
Wed 1st	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tues 30th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mon 29th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fri 26th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 9th	0.51	(same)	0.57	(same)	0.73	(same)	1.02	(-0.01)
Wed 8th	0.51	(same)	0.58	(same)	0.73	(same)	1.03	(same)
Tues 7th	0.51	(same)	0.58	(same)	0.73	(-0.01)	1.03	(-0.01)
Mon 6th	0.51	(same)	0.58	(same)	0.74	(same)	1.04	(same)
Fri 3rd	0.51	(same)	0.58	(same)	0.74	(+0.01)	1.04	(same)
Thurs 2nd	0.51	(same)	0.58	(+0.01)	0.73	(-0.01)	1.04	(-0.01)
Wed 1st	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tues 30th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mon 29th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fri 26th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Financial Markets – 26th June – 10th July

Index	26/06/2015	This Week	% Change
FTSE 100	6,770.94	6,667.89	-1.52%
Dax	11,444.81	11,247.31	-1.72%
CAC 40	5,063.77	4,906.82	-3.10%

Index	26/06/2015	This Week	% Change
Dow Jones	17,890.36	17,548.62	-1.91%
S&P 500	2,102.31	2,051.31	-2.42%
Nikkei	20,706.15	19,779.83	-4.47%
Hang Seng	26,663.87	24,901.28	-6.61%
Shanghai Composite	4,192.87	3,877.80	-7.51%
Sydney	5,536.10	5,478.10	-1.05%

Gold

	Price	Change	%
Forex Gold Index $/oz	1162.40	-39.45	-3.28

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	1.38770	-0.01630	-1.16	1.40430	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.55400	-0.01860	-1.18	1.71520	1.44550