11th September 2015

Market Report

Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 8th October)
- ECB - Maintained at to 0.05% - (next decision 8th October)

As expected the MPC left the bank on hold at 0.5% in an 8-1 vote. The bank also cut its estimate for Q3's GDP from 0.7% to 0.6%. Again, Ian McCafferty voted for an increase in rates, as the committee felt the risks from the slowing Chinese economy had increased since August. The minutes stated: "Developments since then have increased the risks to prospects in China, as well as to other emerging economies." They added: "Global developments do not as yet appear sufficient to alter materially the central outlook described in the August Report, but the greater downside risks to the global environment merit close monitoring for any impact on domestic economic activity." The committee cited the reason for the cut in the GDP forecast due to the run of poor manufacturing and industrial production figures, though they still remained optimistic about the economy. The minutes said: "Domestic momentum is being underpinned by robust real income growth, supportive credit conditions, and elevated business and consumer confidence. The rate of unemployment has fallen by over two percentage points since the middle of 2013, although that decline has levelled off more recently." The Institute of Directors, said: "This far into the recovery, it is worrying that interest rates are still at an extraordinary low. The ability to cut rates and stimulate the economy in times of instability is crucial, but with rates at their historic level of 0.5%, this is almost impossible." The British Chambers of Commerce commented: "Although earnings are edging up gradually, labour costs are not rising at a pace that should cause concern in the near future. Inflation is also likely to remain below the 2% official target until well into 2017. When major international organisations such as the World Bank and the IMF have warned against putting up interest rates, it would be premature and risky for the UK to consider such a step." The timing of the first rate rise also seems to be edging further away, with one economist saying: "An interest rate hike sometime in the first half of 2016 looks a pretty sure bet, but it currently seems a very close call as to whether the Bank of England moves around February, or holds fire until the second quarter. Thereafter, we expect interest rates to rise gradually to 1.25% by the end of 2016, 2% by the end of 2017 and 2.5% by the end of 2018."

Following the decision by the ECB to keep its main interest rate on hold at 0.05%, the central bank has reduced its inflation and GDP forecasts for this year and also for 2016 and 2017. They now expect eurozone inflation to remain "very low" for some years as threats to economic growth increase. ECB president Mario Draghi said Europe's economic recovery would continue, "albeit at a somewhat weaker pace than expected", and hinted that the central bank may expand its stimulus programme if necessary. The ECB has now revised GDP for this year at 1.4%, down from 1.5%, and 1.7% in 2016, compared to the previous estimate of 1.9%. Mr Draghi said risks to the outlook for economic growth and inflation had worsened since the middle of last month, when the latest projections were calculated. "Lower commodity prices, a stronger euro, somewhat lower growth, have increased the risk to a sustainable path of inflation towards 2%," Mr Draghi said. He also warned that inflation could turn negative in the coming months, with the bank now expecting inflation to be 0.1% for 2015, rising to 1.5% in 2016 and 1.7% in 2017, and kept down by lower energy prices. Eurozone inflation was 0.2% last month, still way below the 2% target. One economist said: "The door is now clearly wide open to the ECB stepping up its near-term pace of quantitative easing and/or increasing its overall size and duration. Whether the ECB steps through that door will clearly depend on whether eurozone growth continues to struggle and inflation prospects deteriorate further."

The IMF has urged the leading central banks to hold back on any interest rates rises as concerns grow over slower global economic growth. In a note to G20 finance ministers and central bank governors, who are meeting this weekend (5th/6th), the IMF says the world's largest economies need to raise their medium term growth performance up from the current "moderate" level. The note also said: After six years of demand weakness, the likelihood of damage to potential output is increasingly a concern." The fund is worried that the expected boost from lower oil prices has failed to materialize, and that with low inflation in all advanced economies, "monetary policy must stay accommodative to prevent real interest rates from rising prematurely". Back in July, the IMF lowered its global growth forecast for 2015 to 3.3%, and also said China's GDP would slow to 6.8%. Despite China causing continued market turmoil, the IMF says Chinese authorities should continue to go ahead with reforms to liberalise the economy. They added that: "The recent sharp equity market corrections should not discourage the authorities from continuing with reforms to give market mechanisms a more decisive role in the economy, eliminate distortions, and strengthen institutions." The IMF has also said that the Fed should "remain data-dependent" and not take any steps towards raising interest rates "with little evidence of meaningful wage and price pressures so far". The Fed is widely expected to raise rates in the US later this month. The IMF's also suggests the ECB expands its QE programme "if there is not sufficient improvement in inflation consistent with meeting medium-term price stability objectives".

Bank and Building Societies

Nothing this week

Housing / Mortgage Market

The RICS has doubled its property price inflation estimate from 3% to 6%. They have made their revision due to the shortage of homes on the market, and "accelerating prices". Some other economists also raised theirs from 6% to 7% for 2015. The RICS price indicator was the highest for 15 months, with 53% more respondents reporting price rises than price falls. "Given current market conditions, the latest data unsurprisingly shows house prices continuing to rise, and at an accelerating pace," said RICS's chief economist. "And there is good reason for this trend to be sustained into next year, however uncomfortable that may be for those looking to enter the market." Prices are expected to rise fastest in East Anglia and Northern Ireland to 9% & 11% respectively. The increase in the inflation estimate comes with the stock of homes for sale was at a record low, and called on the government to get more houses built.

Halifax have said house prices rose 9% year-on-year in the three months to August, which is lower than June's 9.6%, but higher than July's 7.8%. On a monthly basis, the average price was up by 2.7% to stand at £204,674. Halifax's housing economist says: "The underlying pace of house price growth is strong. The shortage of secondhand properties for sale on the market is resulting in upward pressure on house prices. At the same time, economic recovery, real earnings growth and very low mortgage rates are supporting housing demand. Strengthening demand and highly constrained supply are likely to mean that house price growth continues to be robust in the short-term." L&G Mortgage Club says: "The increase in house prices in August compared to the same period last year shows the sheer scale of the rift between supply and demand. This imbalance is causing houses prices to climb in months that typically see less activity in the market. This trend is likely to continue in the long-term unless more houses are built so that there are enough homes available for people to buy. The country needs to develop a long-term solution to this issue to stop house price growth from exceeding inflation and earnings growth. The longer this continues, the more people it will push out of the market."

According to the Bank of England and the FCA's latest Mortgage Lenders and Administrators Statistics, average interest rates on gross advances fell to a new record low in Q2. The average interest rate on gross advances fell by 0.16%, from 2.99% in Q1 to 2.83% in Q2, the lowest level since the series began in 2007. There were £52.5 billion of gross advances in Q2 up 15.1% on Q1 and 1.9% up on Q2 2014. The value of residential loan amounts outstanding was £1,272 billion in Q2, an increase of 0.8% compared to Q1 and up 1.8% over the past four quarters. New commitments also increased - from £47.2 billion in Q1 to £59.3billion in Q2, and were up 11% on Q2 2014. The proportion of gross advances at fixed rates rose from 77.6% in Q1 to 78.9% in Q2, most likely due to borrowers worrying about the first rise in the bank rate. First time buyer loans advanced climbed to £10.8 billion from £8.9 billion in Q1, but was down on the £11.4billion in Q2 2014. The proportion of gross advances over 90% LTV increased by 0.2% on Q1 to 3.5% in Q2. Also on 90% or above, the percentage of borrowers whose income multiple was over 3.5x for single income or 2.75x for joint income borrowers went up by 0.2% to 2.3%, while borrowers with a single income multiple of more than 4.00x increased by 0.2% to 9.3% in Q2. New arrears cases in Q2 were 5.5% down on Q1, and repossessions were down 15.9% on Q1. For Buy To Let advances there was also an increase in value terms over the past year, from £7.0billion in Q2 2014 to £8.3 billion in Q2 this year.

The latest figures from the Bank Of England showed approvals hit their highest level since January 2014. July's figures showed 11,7661 approvals, up 8% year-on-year from July 2014. Purchase approvals were up 5.3% annually at 68,764, while remortgages and further advances were up 16% and 2% to 38,042 and 10,855, respectively. The remortgage figure was the highest for almost seven years, most likely driven by borrowers seeking payment security ahead of the first rate rise by the Bank of England. Gross lending climbed 10.8% year-on-year to stand at £18.4billion. One industry commentator said: "Bargain basement mortgage rates are attracting borrowers in their droves, and many are keen to lock into record low pricing before interest rates rise." Although the volatile economic situation in China has led to many analysts saying it will cause a delay in the first bank rate rise, Bank of England governor Mark Carney said that he doesn't feel China's issues will drastically alter the MPC's timetable.

UK

August's Markit/CIPS purchasing managers' index (PMI) for the service sector has showed growth slowing to its weakest rate for more than two years. The index fell to 55.6 last month from 57.4 in July, and although this is still above 50, which indicates expansion, it was the weakest reading since May 2013. Markit estimated the economy would grow by 0.5% in Q3, down from

0.7% in Q2. "Even after allowing for usual seasonal influences, August saw an unexpectedly sharp slowing in the pace of economic growth," said Markit's chief economist. "The services PMI came in well below even the most pessimistic of economists' forecasts and follows disappointing news of a stagnation in the manufacturing sector earlier in the week." Markit said the slowdown in the sector was mainly due to the slowest increase in new business since April 2013. Employment growth picked up from July, but was still the second weakest reading since March 2014. The survey also showed little evidence of price pressures in the sector, which Markit says "suggests the inflation outlook is benign and is therefore likely to help tip the argument towards postponing any rate hikes until the wider global economic picture becomes clearer".

The ONS reported the manufacturing sector had a weak month in July, with output down 0.5% compared to July 2014. However, the overall index of production (IoP), rose 0.8% over the same period, and accounts for about 15% of the economy. It means that production is still 9.3% below its pre-downturn peak of in Q1 of 2008, while manufacturing is 5.2% below its peak.

The UK manufacturing purchasing managers' index (PMI) for August has also indicated growth in the manufacturing sector slowing, as the index fell to 51.5 last month, against the 51.9 in July. Scores above 50 indicates expansion. Markit who compile the index said the figure was "well below" the index average over the past two-and-a-half years, and added that after two years of continual job creation, August saw a reduction in headcount in the sector. "The UK manufacturing sector remains in a holding pattern, with production growth hovering around the stagnation mark and marginal job losses reported for the first time in 26 months," said Markit. "Export order volumes continue to disappoint, with the sterling exchange rate, weak sales growth to the eurozone and the slowdown in China all having an impact." They warned that the sector was unlikely to contribute to the "solid gain in broader GDP growth expected for the third quarter". Analysts are concerned that the weakness in exports as a key problem for manufacturing in the UK. "The survey indicates that UK manufacturers are continuing to find life very challenging as they are being held back, particularly by weak foreign orders," said one economist. "In particular, sterling's strength - particularly against the euro - is seemingly constraining UK manufacturers." One positive point though was the "substantial drop" in input prices, which fell at "one of the steepest rates" seen in the past 16 years, due mainly to lower oil and commodity prices, as well as the strong pound, making exports more expensive but imports cheaper.

The manufacturing body EEF, has warned that a "rollercoaster of risks" is taking its toll on UK manufacturing, as they sharply reduced their forecast for this year from 1.5% to 0.7%. They cite the volatile situation in China, along with the uncertain future of Greece in the EU as some of the challenges facing industry, have reported that export orders have suffered as a consequence. The EEF added that there are two "important" exceptions to this trend, which are manufacturers' investment and recruitment intentions which are looking up, with 6% more firms planning to hire more workers during the next quarter and a balance of 2% planning to increase investment. The EEF said: "While UK data has continued to point to solid growth, UK manufacturing is having to contend with a rollercoaster of risks from the rest of the world. We've seen the future of the Eurozone on the line once again, turbulence and uncertainty over China and Greece and, of course, oil and gas are still a concern."

The ONS has said that there's been a 6% rise in the use of zero-hours contracts by UK businesses in the last year. They claim that businesses used 1.5 million zero-hours contracts in January this year, compared with 1.4 million a year earlier. Apparently this is the first set of data that can be directly compared to a previous point in time, though they say that the rise in the level of zero hour contracts was "not statistically significant". The ONS added that there'd also been a rise in the number of people employed on zero-hours contracts, estimating that 744,000 people, or 2.4%, of those in employment between April and June 2015, were employed on zero-hours contracts, which is an increase from the 624,000, or 2%, for the same period a year earlier. Although this represents a 19% rise year-on-year, the ONS said it was impossible to say how much of the increase was due to greater recognition of the term "zero-hours contracts" rather than an actual rise in new contracts.

The British Retail Consortium (BRC) has said that retail sales in August were hit by the late timing of the bank holiday. Total sales went up by just 0.1% compared to August 2014, while like-for-like sales, fell 1.0%. Although the bank holiday was on 31st August, both the BRC and the ONS judge the month officially ended on the 29th, meaning that this months figures will be boosted by back-to-school purchases.

Europe

Eurozone Q2 GDP has been revised upwards in the second estimate to 0.4%, from the initial estimate of 0.3%. Eurostat also revised Q1's GDP to 0.5% from 0.4%. Also, German imports and exports both reached record levels, boosted by the continuing weakness of the euro. Exports rose 2.4% to €103.4billion (£75.1billion) The upward revision to GDP for Q1 is a result of the inclusion of Ireland, which hadn't been counted in earlier estimates. The Irish economy grew 1.4% in Q1, compared with the previous quarter, making it the fastest-growing eurozone country.

The latest Markit eurozone manufacturing purchasing managers' index (PMI) indicated that growth in the eurozone's manufacturing sector had eased slightly, despite factories barely raising prices. August's index was 52.3, though this is still above the 50 mark that separates growth from contraction, and has been so for more than two years. Germany, the Netherlands, Ireland and Italy all saw strong growth, with Germany's manufacturing PMI reading jumping to 53.3 in August from 51.8 a month earlier. Markit, said the index showed the eurozone manufacturing sector continuing resilience in August, with output growth and inflows of new business both strengthening. "Based on the historical relationship, the PMI is tracking at somewhere close to a 2% annualised increase in industrial production so far in the third quarter, a modest gain but still representing a positive step forward," they said. "The job numbers are also looking more positive, with employment rising at the fastest pace in four years. On the inflation front, lower oil prices led to the first dip in input costs since February, while selling prices remained close to stagnation."

Eurostat also reported that eurozone retail sales rose by 0.4% in July compared with June, roughly in line with expectations and much better than the 0.2% decline in June. Consumer confidence appeared to be particularly strong in Germany, with sales in europe's biggest economy jumping by 1.4% last month.

US

The Labor Dept has revealed that the economy added 173,000 jobs in August, which is the last unemployment report before this month's interest rate decision by the Fed. The figure was under the 217,000 predicted by analysts, though it is known that figures for August tend to be revised higher subsequently. The unemployment rate fell to 5.1%, down from July's 5.3%, is the lowest rate since April 2008.July's jobs figure was revised upwards by 44,000 to stand at 245,000. Some analysts feel that the weaker-than-expected August number could well make the Fed think twice about increasing rates when they meet next week (16th -17th September.) One commentator even said it would be "inconceivable" that the Fed would now raise rates this month given the jobs data and slowdown in emerging markets such as China. However, Capital Economics, said the report was "fairly mixed and can be used to make a case for or against a rate hike", adding: "The September meeting is a 50-50 toss-up." Markit, said: "The most likely scenario is one where the Fed waits a little longer in the light of recent economic and financial market instability, instead merely testing financial market reactions with rhetoric that a rate rise is increasingly imminent."

The Commerce Dept has said that the US trade deficit with the rest of the world fell to a five-month low in July. The deficit declined 7.4% to $41.9billion, compared to $45.2billion in June. Exports rose 0.4% to $188.billion, helped by stronger global sales of US cars, while imports fell 1.1% to $230.4billiion. For much of the year, the US trade deficit has been about 3.6% higher than the previous year as a result of lower export sales. Some in the US remain concerned that economic growth will be hurt by further declines in exports as a result of a stronger dollar and continued overseas weakness in the world's second-largest economy, China. However, the July trade report showed that America's deficit with China rose 0.4% in July to $31.6billion, the highest level in nine months. So far this year, the US deficit with China is 8.5% higher than in 2014 and is on track to notch up another annual record. The US trade gap with China is its largest with any country. Also the trade deficit with the EU climbed to a new record high of $15.billion, as US exports to the EU fell by 5.%.

The Rest Of The World

India's economy grew at an annual rate of 7% in Q2, slower than the 7.5% in Q1 and lower than expected. However, some economists have expressed concerns that the official figures do not accurately reflect true growth. "At face value, today's GDP figures for [the second quarter] suggest that India matched China as the world's fastest-growing major economy last quarter," said Shah at Capital Economics. "But the GDP data remain inconsistent with numerous other indicators which suggest that, at best, the economy is in the early stages of recovery after three years of tepid growth. The official GDP data are overstating the strength of the economy, most probably by a significant margin." "The GDP number is disappointing but, overall, going ahead we expect India's economic growth to be driven by domestic demand," said one economist. "With commodity prices falling,

China's factory activity contracted at its fastest pace in three years in August, confirming fears that the country's growth is continuing to slow. The official manufacturing purchasing managers' index (PMI) dropped to 49.7 from 50 in July. A figure below 50 indicates contraction. The weak data will do nothing to ease fears over China's economy losing steam and could send Asian and global shares down further. The separate private Caixin/Markit index puts the PMI number even weaker, at 47.3, the weakest reading since 2009. The fresh economic data is also likely to undermine efforts by Beijing to reassure investors and calm markets. Chinese mainland stocks have been on a steep downward slope over the past months, shedding almost 40% since June.

China's sharply rising food prices has pushed inflation to a one-year high in the world's second largest economy. The CPI unexpectedly rose to 2% in August from a year ago, mainly due to higher food prices rather than any pick up in economic activity. On the back of that, the producer price index (PPI) fell 5.9% - marking its 42nd consecutive month of declines, and fuelling fears of deflation as manufacturers continue to cut prices. The decline in the PPI was the biggest drop since the global financial crisis in 2009 due to falling commodity prices and slumping demand, with economists saying that the continuing fall in producer prices poses the risk of trickling through to consumer prices. Most economists are now expecting the government to step up with more policy measures to stimulate the economy.

The IMF has warned that the slower growth in China plus the continuing stock market volatility pose a threat to global economic growth. China's slowdown appears to be having a bigger impact for other countries than had been expected, with the market falls hitting exporters of commodities, such as Brazil and Russia, particularly hard. The IMF said that the problems could lead to "much weaker outlook" for global growth, though they still expect global GDP to expand by 3.3% this year, slightly lower than 3.4% in 2014. The IMF called on China to keep reforming its economy despite the recent falls in the stock markets on the mainland. Chinese stock markets have been falling since mid-June and the government unexpectedly devalued the yuan on 11th August. The IMF is also concerned about the impact on global growth if the US Fed raises rates later this year.

The Canadian economy has entered recession as GDP fell by an annualised rate of 0.5% in Q2. It followed Q1's contraction of 0.8%, meaning the economy has seen two consecutive quarters of negative growth, the usual definition of recession. The last time the country was in recession was during the financial crisis of 2008-09, however as an oil exporting country, Canada has been hit by a fall in the price of the commodity. US crude oil prices are currently trading at about $47 a barrel, less than half last year's level of $107 a barrel, pushed lower by a fall in global demand, particularly from China. However, the Canadian figures also showed that trade in June was much brisker, leading analysts to suggest the worst may be over.

Australia's GDP grew less than expected in Q2 as the economy struggled to gain momentum. The economy expanded 0.2% from the previous quarter and was up 2% compared with the same period last year. Quarterly growth of 0.4% had been widely expected, while the annual rate was forecast to be up 2.2%. Growth was hit by a "significant" decline in mining and construction activity as exports also fell. The economy had grown a strong 0.9% in Q1, its fastest pace in four quarters.

Markets, Swaps. Libor, Gold, Sterling

UK Swap Rates

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Thurs 10th	1.04	(same)	1.25	(+0.02)	1.57	(+0.02)	1.94	(-0.01)	2.18	(same)
Wed 9th	1.04	(+0.01)	1.23	(same)	1.55	(+0.01)	1.95	(+0.02)	2.18	(+0.03)
Tues 8th	1.03	(+0.01)	1.23	(+0.02)	1.54	(+0.03)	1.93	(+0.05)	2.15	(+0.05)
Mon 7th	1.02	(+0.02)	1.21	(+0.01)	1.51	(same)	1.88	(same)	2.10	(-0.01)
Fri 4th	1.00	(-0.03)	1.20	(-0.05)	1.51	(-0.07)	1.88	(-0.10)	2.11	(-0.09)
Thurs 3rd	1.03	(-0.01)	1.25	(same)	1.58	(-0.01)	1.98	(-0.02)	2.20	(-0.02)
Wed 2nd	1.04	(-0.01)	1.25	(-0.01)	1.59	(-0.01)	2.00	(+0.01)	2.22	(+0.01)
Tues 1st	1.05	(-0.01)	1.26	(-0.02)	1.60	(-0.02)	1.99	(-0.04)	2.21	(-0.01)
Mon 31st	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fri 28th	1.06	(+0.02)	1.28	(+0.02)	1.62	(-0.02)	2.03	(same)	2.22	(-0.01)

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 10th	0.51	(same)	0.59	(same)	0.74	(same)	1.05	(same)
Wed 9th	0.51	(same)	0.59	(same)	0.74	(same)	1.05	(same)
Tues 8th	0.51	(same)	0.59	(same)	0.74	(same)	1.05	(same)
Mon 7th	0.51	(same)	0.59	(same)	0.74	(same)	1.05	(same)
Fri 4th	0.51	(same)	0.59	(+0.01)	0.74	(same)	1.05	(same)
Thurs 3rd	0.51	(same)	0.58	(-0.01)	0.74	(same)	1.05	(same)
Wed 2nd	0.51	(same)	0.59	(same)	0.74	(-0.01)	1.05	(same)
Tues 1st	0.51	(same)	0.59	(same)	0.75	(same)	1.05	(-0.01)
Mon 31st	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fri 28th	0.51	(same)	0.59	(same)	0.75	(same)	1.06	(+0.01)

Financial Markets – 28th August – 11th September

Index	28/08/2015	This Week	% Change
FTSE 100	6,221.55	6,116.04	-1.70%
Dax	10,266.79	10,134.76	-1.29%
CAC 40	4,661.22	4,554.38	-2.29%

Index	28/08/2015	This Week	% Change
Dow Jones	16,610.00	16,260.79	-2.10%
S&P 500	1,986.23	1,941.87	-2.23%
Nikkei	19,136.32	18,264.22	-4.56%
Hang Seng	21,612.39	21,504.37	-0.50%
Shanghai Composite	3,232.35	3,200.23	-0.99%
Sydney	5,274.70	5,096.30	-3.38%

Gold

	Price	Change	%
Forex Gold Index $/oz	1106.35	-28.65	-2.52

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	1.36730	-0.00130	-0.09	1.43680	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.54300	+0.00650	+0.42	1.71520	1.44550