JohnCharcol

The *independent* mortgage experts

Market Report News

12 February 2016

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Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 17th March)
- ECB - Maintained at to 0.05% - (next decision 3rd March)

Bank and Building Societies

Nothing this week.

Housing / Mortgage Market

The RICS is reporting a surge of demand from Buy To Let investors which they predict will push house prices up further. The surge is most likely being caused by Buy-to-let investors trying to beat the deadline for the 3% stamp duty surcharge from April 1st. The RICS also warned that the number of homes coming onto the market was insufficient to meet demand from landlords aiming to beat the deadline. New buyer enquiries rose for the 10th month in a row in January, picking up for a second successive month. The news is no real shock, with analysts predicting that both prospective & existing landlords would move quickly to complete purchases before the extra stamp duty on second home purchases kicked in. January's survey revealed that 74% of respondents expected an increase in purchases from landlords before April. Although the number of properties coming onto the market picked up slightly in January, it was again completely outstripped by demand, with the inevitable result that prices would carry on rising. "The near-term pressure on prices is if anything intensifying despite a higher level of supply," said RICS's chief economist. "How the tax changes planned for the buy-to-let sector over the next few years play out remains to be seen but there are concerns raised in the survey that some existing landlords will look to either gradually scale back on their portfolios or exit the market altogether as the more penal regime begins to bite. Against this backdrop, it is perhaps not surprising that the key RICS indicators points to further rent - as well as house price - increases."

The Ministry of Justice (MoJ) has published figures showing that repossessions in 2015 were down approx 53% on the previous year. Just under 5,600 homes were repossessed last year which was also the lowest figure since 1987. Q4 repossessions were 1,150, also a fall of 53% on 2014. MoJ said the drop in repossessions was likely to be linked to lower interest rates, lender forbearance, and help from the government through schemes such as the Mortgage Rescue Scheme. Second-charge repossessions also dropped by 49% to 228 in 2015, the lowest figure for at least seven years. The CML has reported that the number of arrears has fallen to 0.92%, the lowest in a decade, with less than one in 100 mortgages in arrears. Owner occupied mortgages represented 1.03% of the total loans, with Buy-To-Let standing at 0.31% for the year. The highest bracket, which is those borrowers with arrears of more than 10% of the balance, fell to 23,700 from 24,200 the year before. The CML, said: "Of course it is good news that the levels of mortgage arrears and repossessions remain low and falling. But, at the risk of sounding as if we are crying wolf, we would continue to urge all borrowers to plan ahead for a time when the interest rate environment may be less benevolent. Lenders do not wish to see borrowers who are coping currently falling into difficulty if and when rates do eventually rise." Most industry analysts cite the ongoing low interest rate environment as the prime reason possessions have stayed low, along with improved employment figures and lenders' flexibility. However, they are concerned that when rates do eventually rise what impact this will have on the levels of arrears and repossessions, with a recent survey by TSB revealing that just over 25% of borrowers would have real difficulty paying their mortgage if their monthly repayments went up by £99.

The ex-chairman of the FSA, Lord Turner is warning that without radical policies, the UK could be stuck with low interest rates "almost indefinitely", adding that "interest rates in the UK may not go up beyond 2% by 2020". Lord Turner also warned about the dangers of peer-to-peer lending, which matches individual borrowers with lenders, and is one of the fastest-growing areas of financial services. This sector of the lending market appeals to borrowers who have been turned down by high street banks and savers prepared to take greater risks to make bigger returns, however Lord Turner warned that: "The losses which will emerge from peer-to-peer lending over the next five to 10 years will make the bankers look like lending geniuses." He also went onto say that the possibility of a UK exit from the EU was already "causing major destabilisation at a global level". "There is a great deal of nervousness that a UK vote for Brexit [to leave the EU] is another layer of uncertainty in an extremely uncertain world - uncertain economically and uncertain politically."

The Association of Residential Lettings Agents (ARLA) has revealed that first-time buyers who buy a home in England this year, will already have spent an average of £52,900 on rent. This cost will rise to £64,400, by the time they buy a home, for those starting to rent now. The report also revealed wide regional variations, with unsurprisingly demand for properties leading to higher rents in London and the South East. "Rents are becoming alarmingly unaffordable due to the lack of available housing," said Arla. "The north-south divide we're currently seeing in the UK is a clear illustration of this. The London rental market is competitive, with far more prospective tenants looking for properties than actual houses available. This is pushing up rents in the capital, which will continue to put pressure on surrounding areas, including the south east of England, as Londoners relocate to avoid high rent costs." London first time buyers had already spent an average of £68,300 on rent, and alongside the £55,900 spent in the South East, are the only regions where lifetime rent spending is above the English average. The lowest figure was the North East, where first-time buyers would have spent £31,300 on rent before buying a home. The figures are based on the average first-time buyer being 31 and people moving out of their family home at 18, and takes into account all forms of renting, not just private tenants. The latest official figures show that the cost of renting a home is rising faster than the general cost of living, with rents paid to private landlords up 2.5% during 2015. In England rents rose by 2.7%, with every region recorded a rise, while in in Scotland they went up by 0.9% and 0.7% in Wales.

UK

The ONS has said that last year the UK's goods trade gap with the rest of the world widened by £1.9billion to a record high of £125billion. They also warned that the latest figures would have a negative impact on the second estimate of Q4's GDP. However, 2015 also saw a record surplus in the dominant services sector of £90billion, which meant that the total trade gap widened by just £300million last year. The overall deficit (difference between imports and exports) was £34.7billion in 2015. Exports in the service sector including financial, tourism, creative and legal, were strong with a record surplus of £90.3billion. Although, the strength of sterling over the past year has undoubtedly not helped the price of exports abroad, the government has made little inroads into rebalancing the economy away from consumer consumption and towards manufacturing. A big concern was that trade with both Germany and China (the two major powerhouses of Europe and Asia) weakened in Q4 last year. There is also an increasing division between the UK's performance in the EU, where the country's goods trade deficit is widening, and trade with the rest of the world, which is looking stronger. December's trade data, showed a narrowing deficit by £1.3billion to £2,7billion overall in the month. December's goods deficit fell to £9.9billion from £11.5billion in November, but mainly due to a drop in imports, rather than an increase in exports. The trade deficit is one factor cited by analysts as a drag on GDP, which has been exacerbated by the strengthening pound over the past few years. One economist said that the latest trade figures pointed to net trade taking 0.2% away from quarter-on-quarter GDP growth in Q4 of 2015.

The ONS also reported that industrial output suffered its sharpest monthly drop in three years in December at 1.1%, following November's drop of 0.8%. Manufacturing output fell 0.2% in December for the third month in a row. The industrial output figures cover output in the manufacturing (largest component of production), mining and quarrying, energy, water supply and waste management industries. The ONS also estimated that industrial output in Q4 saw a revised fall of 0.5%, as against previous estimates of a 0.2% decline.

Europe

Eurostat has announced that GDP in the eurozone for 2015 was 1.5%. In Q4 growth was 0.3%, compared to Q2. The 28 countries of the full EU also grew 0.3% in Q4, to reach 1.8% GDP for the full year. Growth slowed during 2015, suggesting that more action may be needed to stimulate economies from the ECB. "We continue to think that further monetary easing is required, with further policy rate cuts on the cards from March onwards," said one economist. Eurostat also reported a fall of 1% in industrial production in December compared to the previous month, both for the eurozone and the EU, while year on year, it fell 1.3% in the eurozone and 0.8% in the EU. The largest contraction in GDP was seen in Greece, where the economy shrank by 0.6% in Q4, although this was better than had been expected. However, Q3's contraction turned out to have been bigger than previously thought, being revised from 0.9% to 1.4%. Germany expanded by 0.3% in Q4, to an annual rate of 1.7%, with government spending "markedly up", and household consumption up slightly.

"Slow but steady was the retrospective motto for 2015," said one economist, describing Q4 growth as "not exhilarating" but also not a reason to worry.

US

The Fed has dampened on any prospects of an early follow up to last December's 0.25% rate rise. Fed chair Janet Yellen has warned that financial conditions in the US had become "less supportive" of growth. Ms Yellen said: "Financial conditions in the United States have recently become less supportive of growth, with declines in broad measures of equity prices, higher borrowing rates for riskier borrowers and a further appreciation of the dollar. Against this backdrop, the [Federal Reserve] Committee expects that with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace in coming years and that labour market indicators will continue to strengthen." She also said that China's "unclear" currency policy was fuelling global stock market volatility. She added that the decline in China's currency, had "intensified uncertainty about China's exchange rate policy and the prospects for its economy". "This uncertainty led to increased volatility in global financial markets and, against the background of persistent weakness abroad, exacerbated concerns about the outlook for global growth." Although confident that the Chinese economy wasn't facing a "hard landing", Ms Yellen went onto to say that the overall uncertainty created by the world's second-largest economy was definitely behind some of the sharp drops in global commodity prices, which in turn is creating stress for exporting nations. Ms Yellen added that "low commodity prices could trigger financial stresses in commodity-exporting economies" as well as in commodity-producing firms around the world. One analysts responded to her comments saying: "I think she pushed out the next rate hike. Until there is stability in the price of oil and the value of the dollar, I wouldn't expect much more action out of the Fed."

The Rest Of The World

The International Energy Agency (IEA) has said that the recent rise in oil prices is a "false dawn" and the oversupply of crude is set to worsen. The IEA expects oil stocks to grow by two million barrels a day in Q1 and 1.5 million barrels a day in Q2. The IEA forecast that stock building could continue in the second half of 2016 at a rate of 300 million barrels a day. It said: "If these numbers prove to be accurate, and with the market already awash in oil, it is very hard to see how oil prices can rise significantly in the short term." Meanwhile demand for oil is expected to weaken. The IEA forecasts that demand growth will fall to 1.2 million barrels a day this year, from the 1.6 million barrels a day seen in 2015, the IEA said. They also questioned whether the recent rise in prices was a "false dawn" and concluded that a number of conditions increased the risk of weak oil prices, including doubts that Opec, was in talks with other oil producing nations to reduce supply. It also quashed speculation that Opec nations would cut output this year, stating that output from Iraq reached a new record in January. Iran has increased production ahead of sanctions being removed and preliminary data suggested that Saudi Arabia's shipments had increased.

Markets, Swaps. Libor, Gold, Sterling

UK Swap Rates

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Thurs 11th	0.69	(-0.07)	0.75	(-0.07)	0.89	(-0.11)	1.32	(-0.11)	1.58	(-0.11)
Wed 10th	0. 76	(+0.02)	0.82	(+0.02)	1.00	(+0.02)	1.43	(-0.01)	1.69	(same)
Tues 9th	0.74	(-0.04)	0.80	(-0.02)	0.98	(-0.01)	1.44	(same)	1.69	(-0.01)
Mon 8th	0.75	(-0.04)	0.82	(-0.07)	0.99	(-0.11)	1.44	(-0.12)	1.70	(-0.11)
Fri 5th	0.79	(+0.01)	0.89	(+0.01)	1.10	(-0.01)	1.56	(-0.01)	1.81	(-0.01)
Thurs 4th	0.78	(-0.02)	0.88	(-0.03)	1.11	(-0.01)	1.57	(-0.01)	1.82	(same)
Wed 3rd	0.80	(same)	0.91	(same)	1.12	(-0.01)	1.58	(+0.02)	1.82	(+0.02)
Tues 2nd	0.80	(-0.03)	0.91	(-0.05)	1.13	(-0.08)	1.56	(-0.08)	1.80	(-0.07)
Mon 1st	0.83	(+0.03)	0.96	(+0.05)	1.21	(+0.05)	1.64	(+0.04)	1.87	(+0.04)
Fri 29th	0.80	(-0.06)	0.91	(-0.10)	1.16	(-0.11)	1.60	(-0.11)	1.83	(-0.10)

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UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 11th	0.51	(same)	0.59	(same)	0.74	(same)	0.99	(-0.01)
Wed 10th	0.51	(same)	0.59	(same)	0.74	(same)	1.00	(same)
Tues 9th	0.51	(same)	0.59	(same)	0.74	(same)	1.00	(same)
Mon 8th	0.51	(same)	0.59	(same)	0.74	(same)	1.00	(same)
Fri 5th	0.51	(same)	0.59	(same)	0.74	(same)	1.00	(-0.01)
Thurs 4th	0.51	(same)	0.59	(same)	0.74	(+0.01)	1.00	(same)
Wed 3rd	0.51	(same)	0.59	(same)	0.73	(same)	1.00	(same)
Tues 2nd	0.51	(same)	0.59	(same)	0.73	(same)	1.00	(same)
Mon 1st	0.51	(same)	0.59	(same)	0.73	(same)	1.00	(same)
Fri 29th	0.51	(same)	0.59	(same)	0.73	(-0.01)	1.00	(-0.01)

Financial Markets – 5th February – 12th February

Index	05/02/2016	This Week	% Change
FTSE 100	5,848.06	5,649.90	**-3.39%**
Dax	9,286.23	8,930.92	**-3.83%**
CAC 40	4,200.67	3,964.16	**-5.63%**

Index	05/02/2016	This Week	% Change
Dow Jones	16,228.73	15,660.18	**-3.50%**
S&P 500	1,885.69	1,829.08	**-3.00%**
Nikkei	16,819.59	14,952.61	**-11.10%**
Hang Seng	19,288.17	18,319.58	**-5.02%**
Shanghai Composite	2,763.49	2,763.49	**+ / - 0.00%**
Sydney	5,025.60	4,816.60	**-4.16%**

Gold

	Price	Change	%
Forex Gold Index $/oz	1150.35	+89.15	+7.75

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	1.28590	-0.01350	-1.04	1.43680	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.44680	-0.00020	-0.01	1.71520	1.44550