17th October 2014

Market Report

Central Bank Rates

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

Andrew Haldane,the chief economist at the Bank of England has said that interest rates should remain low to avoid long-term economic stagnation. Mr Haldane added that he was downbeat over the UK economy because of weaker global growth, low wage growth and financial and political risks. "Put in rather plainer English, I am gloomier," he said. "This implies interest rates could remain lower for longer, certainly than I had expected three months ago." Global markets have tumbled this week, with investors disconcerted at the lack of growth in Europe and especially Greece, the impact of Ebola, and worrying economic data from China and the US. Mr Haldane also described the UK's economy as "writhing in both agony and ecstasy", and said there were still plenty of reasons to be cheerful, citing growth that is set to be the fastest of any major economy this year, with inflation and borrowing costs low. However, he went on to say that the "reasons to be fearful" included productivity and wages, which had not risen. "If there is genuine uncertainty about the path of the economy, the optimal policy response may be to avoid the worst outcomes," said Mr Haldane.

Bank and Building Societies

Nothing this week.

Housing / Mortgage Market

The dramatic falls in Swap Rates has continued this week, leading to increased speculation that mortgage rates may fall further, as lenders seek to catch up on business volumes lost during the implantation earlier in the year. Earlier this week saw a 2.59% 5 Year Fixed Rate launched, many industry experts say that we may see a challenge to the previously lowest ever 5 Year Fixed of 2.48%

The ONS has reported further evidence of property prices levelling off, showing that in the year to August 2014, prices across the UK rose by 11.7%, which is the same figure as July. However, the average price of a property did reach a new record level, of £274,000. As previously, the sharpest increase was seen in London up 19.6%, followed by the South East, up by 12.3%. Stripping out London and the South East, prices across the remaining regions were up by 7.8%. The ONS figures back up the data from Halifax and Nationwide which has also indicated a slowing down in the pace of property price increases. Halifax said house price inflation in September was 9.6%, with Nationwide at 9.4%. The ONS report is based on mortgage completions, rather than mortgage approvals, so is a "lagging" indicator. Despite the new indications of a slowdown in the rate of property price inflation, some analysts think the property market remains too robust. However, one economist commented that the slowdown was likely to continue. "We maintain the view that - with housing market activity off its early-2014 highs - house prices are likely to rise at a more retrained restrained rate overall through the coming months."

Prices by region	
England	12.2%
Scotland	6.7%
Wales	4.7%
Northern Ireland	9.6%
North East	3.8%
North West	5.6%
Yorks and Humber	6.3%
East Midlands	7.8%
West Midlands	5.8%
East	11.6%
London	19.6%
South East	12.3%
South West	9.3%

Source: ONS prices to August 2014

<u>**UK**</u>

September's CPI inflation figure has shown a fall to 1.2% from 1.5% in August. It means that the CPI is at its lowest level since September 2009, when it stood at 1.1%. The ONS cited lower energy and food prices, along with cheaper transport costs as the main factors behind the latest fall. The news left analysts now saying that a bank rate rise was highly unlikely until well into 2015. The RPI also fell to 2.3% from 2.4% in August, however it's CPI which is the rate the Bank of England is charged with keeping inflation at about 2%. Whilst the UK economy is the fastest growing in the developed world, which would normally prompt rises in interest rates, the falling inflation rate, means that those increases are being stalled. Many economists had been almost certain that the MPC would raise interest rates from 0.5% before the end of the year, however, the latest inflation reduction could push back the first rate rise well into 2015. "There is little sign of any inflationary pressures on the horizon," said the EY Item Club, "The chances of the MPC voting for an increase in interest rates this year have fallen to practically zero. Unless inflation begins to pick up soon, it is likely that the first hike will be pushed out towards the middle of next year, if not later." A senior economist at Hargreaves Lansdown, said: "With inflation predicted to fall further in the coming months, those hoping for a pre-election interest rate rise are highly likely to be disappointed." Also the ongoing scrap for market share between the supermarkets is keeping downward pressure on food prices, and this will have knock on down ward effect on inflation. The ONS revealed that one of the biggest factors behind drop in inflation was cheaper transport costs (notably sea fares and air fares), plus lower prices for a range of recreational goods, including items such as tablet computers and games consoles. However, despite the fall in CPI, average incomes are still lagging, with September's figures showing average earnings, excluding bonuses, between May and July rose by just 0.7% from a year earlier.

More from the ONS, with news that unemployment has dropped below two million for the first time in almost six years. The number of people out of work came down by 154,000 to 1.97 million in the three months to the end of August, which was a far bigger drop than analysts had been expecting. The headline unemployment rate now stands at 6%, its lowest level since late 2008. The number of people in employment rose by 46,000 over the three month period, which was the weakest quarterly gain since May 2013, which economists are saying could be indicative of the economic recovery slowing down. "The UK labour market remains strong. However, there are some areas of concern such as the slowest increase in employment for 15 months, which suggests that the pace of economic growth is easing," said the British Chambers of Commerce (BCC) chief economist. Average weekly earnings in the June-to-August period, excluding bonuses, rose by 0.9% from a year earlier. Including bonuses, earnings rose by 0.7%, well below inflation, which is currently 1.2%. "Real pay continues to drop, carrying on the trend that began six years ago. Weak pay is bad news for household budgets, but also for the levels of income tax receipts and the UK's fiscal position," said the EY ITEM Club.

Other key figures included show:

- The number of people claiming Jobseeker's Allowance in September fell by 18,600 to 951,900, the 23rd consecutive monthly reduction.
- The number of self-employed people dropped by 76,000 in the latest three-month period to 4.5 million, but the total is 279,000 higher than a year ago.
- The number of employees in part-time jobs has reached a record high of 6.8 million.

The UK's trade deficit narrowed in August, according to the ONS, to stand at £1.9billion, compared with £3.1billion in July, though the drop was down to a fall in imports rather than a rise in exports. Exports fell by £0.7billion to £23.2billion in August, mainly due to a reduction in oil exports, particularly to countries outside of the EU, while imports fell by £2billion. However, the UK still has a surplus in trade in services, selling more abroad than it buys in. Analysts said the narrowing of the trade deficit didn't detract from fears over the state of the eurozone economy, and the subsequent impact it's having on UK exporters.

"It's easy to see why exports are declining," said Markit, "Growth has slowed sharply in the eurozone, with even Germany facing the possibility of a renewed recession. Sanctions with Russia are clearly hurting European trade. In addition, just as demand is slumping, sterling's appreciation is making UK goods less competitively priced in overseas markets."

Manufacturers also reported a persistent downward trend in exports. "The trend in exports remains downbeat," said Lee Hopley, chief economist at EEF, "While some of the decline can be attributed to oil, there has been a slide in manufactured exports generally over the past year. The data provide yet another reminder that the export part of the rebalancing equation continues to face some significant challenges."

The latest business trends report from the accountancy and services group BDO, has indicated that manufacturers are feeling the impact of the eurozone's slowdown and wider global problems. The report revealed that in September growth expectations among manufacturers saw their steepest fall since May 2013, with optimism across UK businesses generally seeing a slight fall. With many manufacturers reliant on exports, the deteriorating economic conditions abroad are starting to have an impact. BDO's manufacturing index, which records growth expectations over the next three months, fell from 113.2 in August to 111.6 in September. Although a reading above 100 does indicates growth, the unexpected sharpness of the fall shows how manufacturers are suffering from the recent downturn in the global economy. "With global conditions becoming increasingly challenging, it was only a matter of time before the stellar increases in economic growth recorded earlier this year came to and end," said BDO, "Given their reliance on exports, manufacturers have borne the brunt of weakening global demand but the effects of stuttering worldwide growth are obvious throughout the economy."

The ONS also reported a fall in output from the construction industry, down by 3.9% in August after a 1.9% rise in July. The fall, was the first drop in 18 months, as housebuilding and infrastructure construction slowed. The figure seemed to contradict other surveys in the construction sector, which suggest homebuilders have been expanding output consistently this year. "We suspect this is a wholly inaccurate representation of the sector's health, and that construction in fact continues to boom," said Markit, blaming changes to the way the ONS reports its data to comply with EU rules for "skewing" the data. Markit's own data would suggest that construction continued to expand strongly into September.

Europe

The German government has slashed 0.6% of its GDP forecast for this year citing "external" factors for the revision. They are now predicting 2014's growth to be 1.2%, down from the previous estimate of 1.8%, whilst in 2015 GDP will be 1.3%, down from the 2% previously thought. The overall slowdown in the eurozone economy has damaged German exports in recent months, however the German Economy Minister has said there was no reason for the government to change its economic policies. The German economy is Europe's largest and the latest figures showed that exports fell by 5.8% in August, the largest monthly drop in five years. These followed weak industrial output figures and recent surveys showing a fall in business confidence. "The German economy finds itself in difficult external waters," the Economy Minister said. "Domestic economic forces remain intact, with the robust labour market forming the foundation. As soon as the international environment improves, the competitiveness of German companies will bear fruit and the German economy will return to a path of solid growth." This was the reason that there was "no reason to abandon or change our economic or fiscal policy".

Credit rating agency Standard and Poor's has cut France's credit outlook to 'negative', due to ongoing concerns about the country's struggling economic recovery. However, it affirmed France's AA/A-1+ rating, the third-highest rating. "We believe that...a recovery of the French economy could prove elusive," said S&P, however the French finance minister, described the country's debt as "one of the surest in the world". Official figures from the Bank of France showed that the French economy failed to grow in Q2, and Q3's estimate is just 0.2%. "We believe that...a recovery of the French economy could prove elusive and that France's public finances might deteriorate beyond 2014," S&P said, adding that they expect France's budget deficit to average 4.1% of GDP between 2014 and 2017, an increase from earlier projections of 3.2%. The French government also said it will take an extra two years reduce its budget deficit to below the EU threshold of 3% of GDP. S&P said the negative outlook indicated a one in three chance that certain events would occur which would push it to downgrade France's actual credit rating within the next two years.

US

The Fed's latest Beige Book reports that the US economy grew at a "modest to moderate" pace, with gains in consumer spending, manufacturing and commercial construction helping to deliver the growth. The survey of the 12 Federal Reserve

Districts said six regions reported "modest" growth and five "moderate", with just one saying activity was uneven. The Fed also said some districts reported "modest" wage growth, while several areas saw upward wage pressures in industries like construction and manufacturing. "Most Districts reported overall growth in consumer spending that ranged from slight to moderate," the Fed said, adding their reports were generally in line with comments gathered in the previous Beige Book. One area of muted growth was in retail, where general stores in New York said sales were weak.

The Commerce Dept has said that US retail sales fell by a worse-than-expected 0.3% in September, while US producer prices dipped 0.1%, the first drop in more than a year, the Labor Dept said. "Incoming economic data is prompting many investors to question their faith in the belief that central bankers can change the economic dynamic with easy monetary policy," said one analyst. "Macroeconomic weakness, and the seeming inability of monetary policy to counteract it, has the market in a selling stupor at the moment."

The Rest Of The World

China's inflation has eased to a near five-year low in September, adding to fears of a slowdown in the world's second largest economy. The CPI rose 1.6% in September from a year ago - the lowest since January 2010, which missed market expectations of a 1.7% yearly rise, and down from 2% in August. Economists said the recent figures give policymakers a lot of room to stimulate the economy with inflation well below Beijing's official annual target of 3.5%, though most are divided on whether authorities will step in. "Everything I'm hearing from the authorities is they feel the economy is broadly in a good shape and not needing broad assistance that would come from a deposit rate cut or an RRR [reserve requirement ratio] cut," said one.

Markets, Swaps. Libor, Gold, Sterling.

UK Swap Rates

Date	2 Year		3 Year		5 Year		10 Year		25 Year	
Thurs 16th	1.07	(+0.09)	1.29	(+0.11)	1.65	(+0.13)	2.19	(+0.10)	2.66	(+0.07)
Wed 15th	0.98	(-0.08)	1.18	(-0.13)	1.52	(-0.16)	2.09	(-0.15)	2.59	(-0.16)
Tues 14th	1.06	(-0.04)	1.31	(-0.04)	1.68	(-0.05)	2.24	(-0.03)	2.75	(same)
Mon 13th	1.10	(-0.06)	1.35	(-0.08)	1.73	(-0.08)	2.27	(-0.07)	2.75	(-0.05)
Fri 10th	1.16	(same)	1.43	(-0.02)	1.81	(-0.03)	2.34	(-0.03)	2.80	(-0.03)
Thurs 9th	1.16	(same)	1.45	(same)	1.84	(same)	2.37	(+0.01)	2.83	(+0.01)
Wed 8th	1.16	(-0.03)	1.45	(-0.03)	1.84	(-0.03)	2.36	(-0.01)	2.82	(same)
Tues 7th	1.19	(-0.04)	1.48	(-0.06)	1.87	(-0.08)	2.37	(-0.08)	2.82	(-0.07)
Mon 6th	1.23	(-0.02)	1.54	(-0.01)	1.95	(-0.02)	2.45	(-0.03)	2.89	(-0.02)
Fri 3rd	1.25	(+0.04)	1.55	(+0.04)	1.97	(+0.05)	2.48	(+0.04)	2.91	(+0.03)

UK Libor Rates

Date	**1 Month**		**3 Months Libor**		**6 Months Libor**		**12 month Libor**	
Thurs 16th	0.51	(same)	0.56	(same)	0.69	(same)	1.00	(same)
Wed 15th	0.51	(+0.01)	0.56	(same)	0.69	(-0.01)	1.00	(-0.02)
Tues 14th	0.50	(same)	0.56	(same)	0.70	(same)	1.02	(same)
Mon 13th	0.50	(-0.01)	0.56	(same)	0.70	(same)	1.02	(+0.01)
Fri 10th	0.51	(same)	0.56	(same)	0.70	(-0.01)	1.01	(-0.04)
Thurs 9th	0.51	(same)	0.56	(same)	0.71	(same)	1.05	(same)
Wed 8th	0.51	(same)	0.56	(same)	0.71	(same)	1.05	(same)
Tues 7th	0.51	(same)	0.56	(same)	0.71	(same)	1.05	(same)
Mon 6th	0.51	(+0.01)	0.56	(same)	0.71	(same)	1.05	(same)
Fri 3rd	0.50	(-0.01)	0.56	(same)	0.71	(same)	1.05	(-0.01)

Financial Markets – 3rd October – 17th October

Index	03/10/2014	This Week	% Change
FTSE 100	6,547.12	6,243.23	-4.64%
Dax	9,275.14	8,722.85	-5.95%
CAC 40	4,289.12	3,989.57	-6.98%

Index	03/10/2014	This Week	% Change
Dow Jones	17,009.69	16,117.24	-5.24%
S&P 500	1,967.90	1,862.76	-5.34%
Nikkei	15,890.95	14,532.51	-8.54%
Hang Seng	23,315.04	23,023.21	-1.25%
Shanghai Composite	2,363.87	2,341.18	-0.96%
Sydney	5,292.60	5,260.10	-0.61%

Gold

	Price	Change	%
Forex Gold Index $/oz	1238.00	+44.75	+3.75

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	1.25670	-0.01630	-1.28	1.27800	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.61090	+0.01300	+0.81	1.71520	1.44550