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The *independent* mortgage experts

Market Report News

19 February 2016

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 CML has said that January's year-on-year gross mortgage lending was the highest since 2008 at £17.9billion. Although the figure is down 9% on December's £19.8billion it marks a 21% increase on January 2015. The CML says: "UK market fundamentals are helping to underpin this recovery, with real wage growth, an improving labour market, competitive mortgage deals, and government schemes all supporting household demand. We still only see limited upside potential going forwards, as the number of properties for sale on the market remains low and affordability pressures weigh on activity. Upcoming tax changes in the buy-to-let sector are adding an element of uncertainty to the market." L&G Mortgage Club commented: "January saw a significant increase in lending compared to previous years as the growth in house price inflation drove lending beyond what we would normally see at the beginning of the year. It is therefore crucial to note that the annual rise in gross mortgage lending largely reflects an increase in the size of loans rather than the number secured. A per usual, the lack of supply is the major concern and talking point, with competition for each purchase leading buyers to take on larger loans to enable to get the home they want. With the prospect of the first bank rate rise now looking into 2017, the ongoing low rates, the Help to Buy schemes, and lender competition are likely to keep demand high, which won't lead to a softening of prices anytime soon. One estate agent commented: "Perhaps surprisingly we are seeing just as many first-time buyers keen to take advantage of record low mortgage deals as investors trying to beat the Stamp Duty hike. The interest rate issue is prevailing over Stamp Duty hikes and other concerns: first-time buyers are saying that there are cheap mortgage rates now so they want to take advantage of them. The same may not be true in several months' time so why wait? "Surprisingly, what we have found is demand split roughly equally between investors keen to beat the 3% tax surcharge from April and first-time buyers wanting to take advantage of additional property choice and competitively-priced mortgages before interest rates start to rise."

The Intermediary Mortgage Lenders' Association (IMLA) says the intermediary share of the mortgage market, is likely to reach 70% this year, but will then be static over the next two years. Analysts feel the peak may have been reached due to lenders gearing up for increasing their direct-to-consumer business with improvements in technology, along with the effects of the 2014 Mortgage Market Review (MMR) finally 'washing through'. The IMLA prediction only covers regulated mortgages, unregulated loans such as buy to let, would add around 2.5% to the overall figure. Experts expect lenders to rely more on technology to help them recover some of their lost market share, but this will take time to achieve, and many are skeptical as to whether systems that would satisfy the regulator for dealing with borrowers can be developed cost effectively.

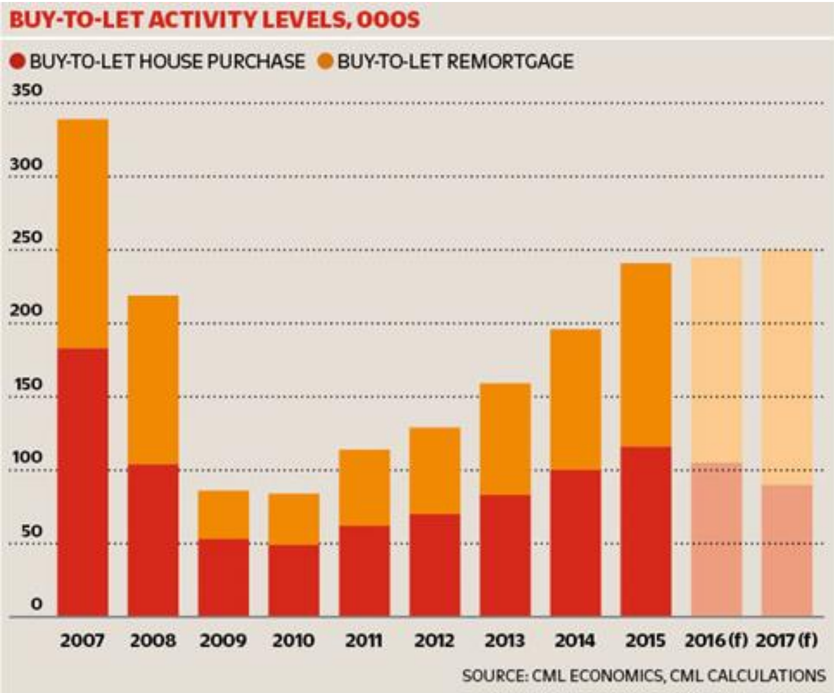
The ONS has reported growth of 6.7% for property prices across the UK last year, and is a sharp drop on 2014's 9.8%. Property prices rose fastest in England, at 7.3%, and slowest in Scotland with a 0.2% drop in 2015. Wales managed just 1%, while in in Northern Ireland it was 1.5%. The data left the average price of a property at year end was £288,000. The ONS figures are roughly in the middle of the range of estimates from other lenders / organisations. Halifax, came in at 9.5% in 2015, while Nationwide's increase was just 4.5% & Land Registry came in at 6.4%. The CML said that the number of new mortgages taken out last year was about the same as 2014, however the amount actually borrowed was up 5.3% from £112billion in 2014 to £118billion.

Where prices rose fastest in 2015	
Region	% Price Change
East England	+9.7%
London	+9.4%

South East	+8.8%
East Midlands	+5.0%
South West	+4.7%
North West	+3.7%
West Midlands	+3.5%
Yorks & Humberside	+2.6%
N.Ireland	+1.5%
Wales	+1%
North East	+0.9%
Scotland	-0.2%

The Chairman of the Treasury Select Committee, Andrew Tyrie has warned that the proposed government tax changes could have a wider negative impact on the economy. Mr Tyrie says the key to a mobile and functioning labour market is an affordable housing market, and he is concerned that, "any impediment to labour mobility will reduce employment, economic activity, and the economy's long-run productive potential." The impending 3% Stamp Duty surcharge, plus the decision to tax landlords on income not profits from 2017 have already taken the steam out of this fast-growing market. The Committee said: "The Chancellor's attempts to resolve what he calls a 'home ownership crisis' should not come at the expense of the private rented sector. Housing policy in the UK has been in a mess for a long time – caused by the policies of successive governments over decades and, often, their unintended consequences. Sooner or later, more thoroughgoing reform will be essential." The TSC roundly criticized the reports of improving fiscal forecasts which they say aren't being driven by an improving economic outlook, but changes to modelling and assumptions by the Office for Budgetary Responsibility (OBR). The report also highlighted the fact the tax burden, which was 33% of GDP in 2014-15, will rise to 34.2 % by 2017-18. The Treasury is claiming that in the first full year of implementation in 2020-21, the new tax relief restriction will raise £665million, whilst the 3% Stamp duty surcharge should raise £625million in 2016-17, primarily from landlords. The reduced window for payment of CGT on residential property is estimated to be worth £230million in 2020-21, with the reform of the wear and tear allowance predicted to raise £205million in its first year, 2017-18.

Housing economists have challenged the Bank of England's view that the Buy To Let sector has become systemically important and is a threat to the wider economy. The Bank of England has claimed that Buy To Let is now large enough to be a possible danger to UK plc, and is worried that an interest rate rise or financial downturn could cause landlords to sell their properties in droves, and thereby accelerate price falls and in turn have a knock-on impact on the wider financial system. A Bank survey from December revealed that 15% Buy To Let investors would consider selling up if rental income stopped covering interest payments, whilst 45% said they'd sell if house prices fell more than 10%. Just last month, governor Mark Carney said the market warranted "heightened scrutiny" . However, housing economists argue there are no signs this will ever happen. Capital Economics says: "I am a little more sceptical than most about the idea that all landlords are in it for a quick buck and at the first sign of trouble they will sell their properties and flood the market with homes nobody wants. That isn't the way they have behaved in the past. Most of them dip in and out of the market at times and under conditions that suit them." Others say that although factors such as the Chancellor's plans to raise stamp duty on second homes could decrease net Buy To Let investment, existing landlords will not be fazed. Mortgages for Business warned that the Government should be wary of making more changes to a sector that has already seen great recent turbulence. They said: "It would be worrying indeed if the Financial Policy Committee starts pulling some more levers before they see the outcomes of the current changes in hand. Some of those changes aren't going to strike until 2020/21, when the higher-rate taxpayer loses a percentage of his revenue in tax. There is so much up in the air, it's like juggling balls, and if they throw more balls into the mix then they risk dropping them all, but none will be any wiser after the event about what worked and what did not work." The CML added: "Our concern is about the cumulative effect of a range of measures that will have an effect on the buy-to-let sector, and there could be knock-on consequences for tenants. We had the announcement of a series of reductions in what landlords will be able to set aside against tax in the future. Then, of course, there is the prospect of macro prudential measures targeted at the buy-to-let sector that may be used to address concerns within the sector."



The Intermediary Mortgage Lenders Association (IMLA) has said that government housing policy needs overhauling if it is to meet homeownership targets. They say that record mortgage affordability is keeping the housing market afloat, and that mortgage lending will continue rising in 2016 and 2017, and are predicting a sharp rise in lending for property purchases by owner-occupiers, from around £142billion in 2015 to £155billion this year and £169billion in 2017. Last year affordability hit its highest level ever, as buyers spent a record low of 8.6% of their income on interest by Q3 2015. Even those put upon first time buyers only spent 9.7% of their income on interest by November 2015. The report also highlighted that in February last year, the average 2 Year fixed rate at 75% fell below 2% for the first time, and in October the average 2 Year fixed rate at 90% was below 3%, also for the first time. Although the IMLA research shows that first time buyer mortgage payments are lower than average rents in every region of the UK, this is yet to filter through into the governments desired increase in homeownership, probably due to factors such as deposit affordability and tighter lending criteria acting as a drag. In 2015 high LTV loans became more affordable, with borrowers opting for higher LTV options facing a smaller marginal cost for borrowing between 75 - 90% and between 75% - 95%. However, despite the improving affordability of high LTV loans, there was no real rise in aggregate high LTV lending or the number of first time buyers, which was down slightly in the year to November 2015. IMLA is worried that the ending of the Help to Buy mortgage guarantee scheme at the end of the year will have a negative impact for first time buyers, as it may reverse the recent improvements in high LTV loan pricing.

The Building Societies Association Building has reported that societies lent £57billion last year, up 8% on the £52.7billion in 2014. The latest figures gave mutuals a 26% share of the mortgage market. Net lending fell to £15.2billion, down from 2014's £17.3billion, which actually gave societies 45% of all net lending in 2015. Building societies held mortgages to the value of £265.2billion or 21% of the UK market. The BSA says: "Competition in the mortgage market picked up in 2015 with the large banks demonstrating an increased appetite to lend. Despite this, building societies have continued to benefit from their ability to provide mortgages to consumers with a wide range of requirements, including first time buyers, self-builders, shared owners and those needing mortgages later in life."

UK

The ONS has said that unemployment fell by 60,000 between October and December to 1.69 million to leave the unemployment rate unchanged at 5.1%. However, the ONS remains worried that wage growth is still slow. "While the employment rate continues to hit new highs and there are more job vacancies than ever previously recorded, earnings growth remains subdued and markedly below the recent peak of mid-2015," the ONS said. Wage growth increased by 2% during the period, quite similar to the rate between September to November 2014 and September to November 2015, which was 1.9%. The number of non-UK nationals working in the UK rose by 254,000 to 3.22 million. These latest statistics also show that the number of Romanians and Bulgarians working in the UK reached a record 202,000 last year, up 48,000 on the previous year. There were 5.35 million people employed in the public sector in September 2015, down 59,000 on a year earlier, and the lowest figure since comparable records began in 1999.

Also from the ONS was the news that inflation edged up to a 12 month high in January. The CPI rose by 0.3% last month, helped by smaller falls in food and fuel prices than a year ago. The Bank of England is predicting that inflation will stay below 1% this year which reduces the chance of a hike in the bank rate. One economist commented: “It is strange to think that an inflation rate of 0.3% year-on-year is the highest reading we have seen for a year but that is the reality of the global inflation picture.” Hargreaves Lansdown added: “UK inflation has reached its highest level in a year, equalling the 0.3% seen in January 2015. This continues the trend of inflation being at or very close to zero and confirms the complete absence of pressure on the Bank of England to lift interest rates. The headline rate continues to be largely driven by volatile fuel prices. If the recent oil price rally is sustained, we could see inflation continue to tick upwards in the coming months, though the Bank of England said earlier this month that inflation would likely undershoot the 2% target until 2018.” The RPI increased to 1.3% in the year ending January, up from 1.2% in December.

More from the ONS who’ve said that government borrowing fell in January thanks to the largest public finance surplus for any January since 2008. The January surplus, excluding banks, rose by £1billion to £11.2billion compared to last year. Surpluses usually occur in January due to the high level of tax receipts in the month, and although the figure was the highest for eight years, it was below the £12.6billion forecast by economists. Government borrowing for the current tax year year, from April 2015 to January, was £66.5billion, which is £10.6billion lower than at the same point in the previous 12 month period. "This still leaves the Chancellor with some work to do over the next few months if he still wants to meet this forecast," said Capital Economics. "After all, he is left with around £7billion left to borrow in February and March - last year he borrowed almost £15billion." This was echoed by Pantheon Macroeconomics who said: "Barring revisions, [George Osborne] can borrow only £7billion in the last two months of the fiscal year if he wants to meet the Autumn Statement forecast - a feat not seen since 2003/04."

Lastly from the ONS, January’s retail sales volumes jumped 2.3% against December’s fall of 1.4%, to leave them 5.2% higher for the year. Department stores posted the 34th month of consecutive year-on-year growth, as the cold snap in January prompted shoppers to look for winter clothing, while bargain-hunters were out in force in the post-Christmas sales. Online sales continued to rise, up 10% year-on-year.

Europe

Nothing this week.

US

The minutes from the Fed’s latest meeting has shown that members considered changing course on their plan to raise rates throughout 2016. The minutes showed members were worried that a global economic slowdown could hurt the US. Policymakers agreed that "uncertainty had increased" since their decision to raise interest rates in December, with some members feeling that tighter economic conditions would be "roughly equivalent" to further hikes. Since December's decision, oil prices have continued to fall and global share markets have been highly volatile. "The minutes are indeed a more dovish tint to the Fed's language and, on balance, likely suggest a lower likelihood of the Fed raising rates in March," said one analyst. The minutes also said: "Members observed that if the recent tightening of global financial conditions was sustained, it could be a factor amplifying downside risks," to the US economy. The committee agreed it's too early to determine whether the data warranted changing course, but stated that they planned to continue to monitor the situation. The minuets also showed Fed members remain concerned about the impact of a slowing China on Mexico and Canada, the two biggest trading partners for the US.

The Rest Of The World

The Japanese economy contracted in Q4 of 2015 by 0.4%. Expectations were for a quarterly contraction of 0.3%, however weaker domestic demand, together with slower investment in housing, contributed to the disappointing numbers. Annualised the contraction was 1.4% during the period, compared to expectations of 1.2%. Analysts say Japan needs to ensure exports grow in order to support future GDP, as for every 1% that Japan's economy grows, between 0.5 and 0.7% comes from exports. Japan also relies heavily on domestic consumption but with an ageing, shrinking population, fewer people are contributing to the economy. The governor of the Bank of Japan has repeatedly said he will do "whatever it takes" to defeat 20 years of deflation. The country's latest trade figures revealed a fall in exports for a fourth straight month. The value of exports fell by 12.9% year-on-year in January, supporting concerns that the slowdown in China continues to hurt demand. Imports fell by 18%, which left the economy with a deficit of 645.94billion yen (£3.95billion). Expectations had been for a fall in exports of just over 11%, with a drop in imports of 16%. Analysts felt the numbers weren't a good sign for the future of the economy. "Japan's January trade figures were woeful [and] this is more fodder for those who think Japan's economy is a disaster waiting to happen," said one.

The Organisation for Economic Co-operation and Development (OECD) has called for urgent action by world leaders to tackle slowing global growth. Their call came as they cut their global economic forecasts for 2016. At the end of last year they were forecasting growth of 3.3% for this year, however this has now been reduced to just 3%. They cited trade, investment and wage growth as all too weak, and added that cutting interest rates and other monetary policy fixes were not sufficient to reflate growth. The OECD cut its US growth estimate to 2% from the 2.5% it was predicting last November. The OECD said: "Monetary policy cannot work alone. A stronger collective policy response is needed to strengthen demand." The UK's growth is now forecast for 2.1%, down from the 2.4% previously, while Germany is cut from 1.8% to 1.3%. The OECD isn't expecting any further pain from China, and left its growth forecast at 6.5% for this year. India was about the economy to see an upwards revision with growth now anticipated at 7.4% from 7.3%.

Markets, Swaps. Libor, Gold, Sterling

UK Swap Rates

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Thurs 18th	0.78	(-0.01)	0.86	(-0.01)	1.02	(-0.03)	1.45	(-0.04)	1.71	(-0.03)
Wed 17th	0.79	(+0.05)	0.87	(+0.06)	1.05	(+0.07)	1.49	(+0.05)	1.74	(+0.07)
Tues 16th	0.74	(+0.05)	0.81	(+0.06)	0.98	(+0.09)	1.44	(+0.12)	1.67	(+0.09)
Mon 15th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fri 12th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
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)

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UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 18th	0.51	(same)	0.59	(same)	0.74	(same)	1.00	(same)
Wed 17th	0.51	(same)	0.59	(same)	0.74	(same)	1.00	(same)
Tues 16th	0.51	(same)	0.59	(same)	0.74	(same)	1.00	(+0.01)
Mon 15th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fri 12th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
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)

Financial Markets – 12th February – 19th February

Index	12/02/2016	This Week	% Change
FTSE 100	5,649.90	5,940.19	**+5.13%**
Dax	8,930.92	9,364.75	**+4.85%**
CAC 40	3,964.16	4,198.50	**+5.91%**

Index	12/02/2016	This Week	% Change
Dow Jones	15,660.18	16,413.43	**+4.80%**
S&P 500	1,829.08	1,926.82	**+5.34%**
Nikkei	14,952.61	15,967.17	**+6.78%**
Hang Seng	18,319.58	19,285.50	**+5.27%**
Shanghai Composite	2,763.49	2,860.02	**+ 3.49%**
Sydney	4,816.60	5,008.30	**+3.98%**

Gold

	Price	Change	%
Forex Gold Index $/oz	1221.50	+71.15	+6.18

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	1.28650	+0.00060	+0.05	1.43680	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.42810	-0.01870	-1.29	1.71520	1.44550