

20<sup>th</sup> June 2015

# Market Report



## Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 9<sup>th</sup> July)
- ECB - Maintained at to 0.05% - (next decision 2<sup>nd</sup> July)

**The minutes of June's MPC meeting show that the committee is expecting an acceleration in economic growth for Q2.** As expected, the vote to leave the bank rate & QE unchanged was unanimous. The committee were also confident that global growth would resume at a steady pace in Q2 and beyond, saying: "For some members, it now appeared that the boost to global, as well as UK, activity from the reduction in oil prices in the second half of 2014 had been less than anticipated – perhaps reflecting continued caution on the part of households and firms who might be inclined to save such windfalls, at least initially. "For other members, the recent data were less concerning: the impact of higher real incomes on spending would to be felt only with a lag and was likely to build over time if oil prices remained significantly below their mid-2014 levels, as the relative abundance of oil inventories and supply suggested was likely." The MPC also warned of the risk of "international spillovers" as other countries assess their own monetary policy, saying that while the most likely path for the base rate in future remains a gradual increase, the actual path remains uncertain. However, the minutes confirmed that the path for UK monetary policy is dependent on the prospects for inflation in the UK and not determined by the actions of other central banks, stating that "the pace at which those countries began to embark on a normalisation of monetary policy would depend on their own individual circumstances". There was also a concern that a "disorderly outcome to the Greek debt negotiations remained a significant risk". Once again, two members described their decision to 'hold' was 'finely balanced'. Overall, the MPC agreed that developments since the previous meeting had been limited and, in the main, consistent with the expectations that the Committee had set out in its May Inflation Report.

## Bank and Building Societies

Nothing this week

## Housing / Mortgage Market

**The CML has reported that gross mortgage lending went up by 2% in May compared with April to £16.2billion, which they described as "gentle recovery".** However, despite their positive spin, annually lending was 3% lower than in May last year. Brokers have said that despite the very low mortgage rates, there's still a big shortage of properties coming onto the market. A CML economist said forward looking data, like Bank of England data on approvals, would suggest an increase in lending over the coming months. He added: "The economic environment is one that should support increased activity in the near term, coupled with low mortgage rates. But while we expect these factors to support activity, there is a limited upside, driven mainly by affordability constraints." One industry commentator said: "The gap between what people earn and what they can afford to buy continues to be an issue. There is little incentive to sell when there is a lack of choice as to what to buy."

**The ONS has said that property price growth eased back sharply in the year to April, driven by a slowdown in London.** Prices went up 5.5% in April against the 9.6% rise recorded to March, and marks the slowest annual price growth since December 2013. London prices rose at their slowest growth rate in two and a half years at 4.3%. Excluding London, property increased by 5% in the 12 months to April. In England there was a 5.8% rise, whilst in Wales it was 1.3%, 2.2% in Scotland and 8.8% in Northern Ireland over the same period. The latest figures left the average house price standing at £271,000. Once again, the issue of demand outweighing supply was cited as the key factor for the continued increase. One analyst said: "More suitable and affordable housing is needed at both ends of the market – from first to last time buyers. As we go into the summer months and predict an increase in activity in the sector, it is paramount that the Government sticks to its pledge to build more homes."

**The FCA's latest Mortgage Lenders and Administrators statistics have shown that the proportion of borrowers taking fixed rates has shrunk, as an increasing number look to take advantage of cheap variable rates.** Some 77.6% of borrowers took a fixed rate in Q1, down from 82.2% in Q4 & 81% in Q1 2014. The average variable rate has come down to 2.58%, from 2.94% a

year ago. The average price of fixed rates also fell in the past 12 months, from 3.32% in Q1 2014 to 3.13% in Q1 2015. The FCA's figures also showed lending was subdued in Q1, with gross advances dropping 3.2% from £47.1billion in Q1 2014 to £45.6billion in Q1 this year. Although residential lending was down, Buy to Let increased, with £7.6billion advanced in Q1, up from £6.8billion a year earlier. One industry economist said: "The introduction of new mortgage regulations depressed lending over the past year and has incentivised lenders to turn to the non-regulated sector which now makes up 19% of all new mortgages."

## UK

**The ONS has said that unemployment fell again, as wage growth hit a near four-year high.** However, youth unemployment (people between 16 to 24) remains stubbornly high at 16.1%. Wage growth for the period stood at 2.7% (including & excluding bonuses), the fastest rate since August 2011. Although some analysts have said that this may lead to interest rates rising sooner than expected, others feel that this is still playing catch up for the previous years of low / nil growth. "The speed in the rise in earnings will embolden a minority on the Monetary Policy Committee who feel the urge to raise rates," said the chief economist at the British Chambers of Commerce. "However, until there is firmer evidence of comparable increases in productivity, such a move would be premature." "It's uncertain as to how much pay growth will continue to accelerate, as low inflation will hold down annual pay reviews," said the chief economist at Markit.

**The Consumer Prices Index (CPI), climbed back into positive territory in May at 0.1%, up from -0.1% in April.** The increase was driven mainly by a rise transport costs, notably air fares. The ONS said: "Last month CPI turned negative, mainly because of falling transport fares due to the timing of Easter. This month, that fall has been reversed." They also said that the falls in food and fuel prices over the past year "have eased this month, helping to push inflation up". Negative inflation "proved both marginal and fleeting", said one economist, "We doubt that deflation will recur in the UK, although it cannot be completely ruled out if oil prices take a renewed appreciable downward lurch." Most economists agree that inflationary pressures were still limited last month, with core inflation only 0.9%, only slightly above its 14 year low of 0.8% in April. The EY ITEM Club, said that inflation could briefly turn negative again during the summer. "Petrol prices, having rallied earlier in the year, have stabilised lately, while today's producer prices data indicates that there are no inflationary pressures coming along the supply chain," they said. May's RPI which includes housing costs, was 1%, up from 0.9% in April.

**The ONS has revealed that retail sales in May went up by 0.2%, a slowdown from April's 0.9% increase, as consumers bought fewer new clothes.** Economists had been expecting sales to be flat in May after April's were boosted by unusually warm weather. Some economists have predicted that consumer spending could be on track for a strong year as low inflation and rising wages give households more disposable income. However, despite the relatively modest sales rise, many economists felt that "the underlying trend looks healthy". Compared to May 2014, retail sales rose 4.6%, which the ONS said was 26th consecutive month of year-on-year growth. Average prices were down 2.7% from a year earlier. "In light of continued growth in sales, fears that falling prices would encourage consumers to delay spending remain very wide of the mark," said the EY Item Club. "However, falling prices are bad news for retailers margins', particularly in light of the latest earnings data which showed earnings growth in the retail sector rising at an annual rate of 5% in the three months to April," they added.

**The ONS has said that a rise in income tax receipts helped to cut government borrowing in May.** Government borrowing fell to £10.129billion in May, down from £12.35billion a year earlier, and is the lowest borrowing figure in May for eight years. May's income tax receipts were the highest for May in four years. Income tax receipts rose by 5.3% from a year earlier to £10.8billion. Public sector net debt excluding public sector banks now stands at £1,500.2billion, which is 80.8% of GDP.

**Ratings agency S&P has cut the outlook for the economy due the proposed referendum on EU membership.** They state that the referendum "represents a risk to growth prospects" for the economy, as they changed their outlook to negative from stable, though kept the current credit rating the same. S&P added that it wasn't just the referendum that was causing concern. "We believe a possible UK departure from the EU also raises questions about the financing of the UK's large twin deficits and its high private short-term external debt," they added.

## Europe

**An emergency summit of eurozone leaders is to be held on Monday (22<sup>nd</sup>), following the failure of the latest talks to try to resolve the Greek debt crisis.** Head of the Eurogroup, Jeroen Dijsselbloem, said that "too little" progress had been made and that "no agreement as yet is in sight". There is now less than two weeks to strike a deal, or face a Greek default. Greek Prime Minister Alexis Tsipras said that there would be a solution to the country's debt crisis. "The [eurozone] leaders summit on Monday is a positive development on the road toward a deal," he said, adding "All those who are betting on crisis and terror scenarios will be proven wrong. There will be a solution based on respecting EU rules and democracy which would allow Greece to return to growth in the euro." Mr Tsipras is also due to meet Russian President Vladimir Putin at an economic forum. The ECB is reported to be holding an emergency meeting later to discuss the deteriorating situation for Greek banks, and it's thought that the central bank may have to extend further emergency funding for Greece's banks which have been battered by worried customers withdrawing their money. The Greek Finance Minister has said that the government had presented a "comprehensive" proposal to its creditors and that disagreement only existed over spending equivalent to 0.5% of Greek GDP, which he says doesn't constitute a "dangerous impasse". He added that Greece had already made a "gigantic adjustment" over the past five years and he rejected any measures that would "jack-up" taxes and reduce benefits further. Mr Dijsselbloem however, called on Greece to submit "credible" proposals in the coming days and said the nation needed to seize a "last opportunity" to reach a deal with its creditors.

**Germany's statistics office Destatis has said that consumer prices rose by 0.7% year-on-year in May, as the inflation rate increased for the fourth consecutive month.** Compared with April 2015, the consumer price index rose by 0.1%. Excluding energy costs, consumer prices rose by 1.2% year-on-year. Using the ECB's preferred Harmonised Index of Consumer Prices (HICP), inflation also rose by 0.7% year-on-year in May. However, investor sentiment in June fell to its lowest level in seven months as uncertainty over Greece and subdued global growth hit confidence. The investor confidence index fell by a steeper-than-expected 10.4 points to 31.5 points this month, and was at its lowest level since November 2014.

## US

**The Fed is apparently is moving towards an interest rate rise later this year, however, the bank warned that conditions in the labour market and inflation did not yet warrant an increase.** Fed chair Janet Yellen said that "most [policy-makers] are anticipating a rate increase this year", adding that once rates started to rise, any increases would be gradual. The Fed has been trying to find a balance between giving clear guidance to the markets about what will prompt a rise, while not restricting its freedom to react to new economic data. The central bank said it would raise rates when it had "seen further improvement in the labour market" and was "reasonably confident" that inflation would reach its target of 2% in the "medium term". Most economists expect the first rate rise to come in September, though the projections from the Fed show less certainty about how far rates will rise before the end of this year. Policy makers seem to be equally split between one, two or three rate increases this year, according to the bank's "dot plot", which shows where individual policy makers think the economy is heading. Ms Yellen claimed that "sometimes too much attention" was placed on the timing of the first increase - and that the entire trajectory should be considered. The jobless rate is currently at 5.5%, close to where the policy makers said it needed to be to consider raising rates, however it is thought that this number does not reflect the full picture, as many people aren't included as they're not looking for work, but still want a job. Ms Yellen said that, although the Fed saw the factors behind the disappointing Q1, they "would like to see more decisive evidence that a moderate economic growth will be sustained".

**US inflation rose 0.4% in May, due mainly to a sharp increase in petrol prices.** The 10.4% petrol price increase in May was the biggest since June 2009, while core inflation, (excluding food and energy prices), rose 0.1% in the month. Over the past 12 months, overall inflation has shown no increase, while core inflation is up 1.7%, both showing modest inflation pressures.

## The Rest Of The World

Nothing this week

## UK Swap Rates

### Markets, Swaps. Libor, Gold, Sterling

| Date                   | 2 Year |         | 3 Year |         | 5 Year |         | 10 Year |         | 20 Year |         |
|------------------------|--------|---------|--------|---------|--------|---------|---------|---------|---------|---------|
| Thurs 18 <sup>th</sup> | 1.07   | (-0.02) | 1.31   | (-0.02) | 1.67   | (-0.03) | 2.15    | (-0.03) | 2.41    | (-0.03) |
| Wed 17 <sup>th</sup>   | 1.09   | (+0.07) | 1.33   | (+0.08) | 1.70   | (+0.08) | 2.18    | (+0.09) | 2.44    | (+0.08) |
| Tues 16 <sup>th</sup>  | 1.02   | (-0.02) | 1.25   | (-0.04) | 1.62   | (-0.03) | 2.09    | (-0.04) | 2.36    | (-0.04) |
| Mon 15 <sup>th</sup>   | 1.04   | (+0.01) | 1.29   | (+0.03) | 1.65   | (+0.01) | 2.13    | (+0.03) | 2.40    | (+0.04) |
| Fri 12 <sup>th</sup>   | 1.03   | (same)  | 1.26   | (-0.02) | 1.64   | (same)  | 2.10    | (-0.04) | 2.36    | (-0.04) |
| Thurs 11 <sup>th</sup> | 1.03   | (-0.01) | 1.28   | (-0.01) | 1.64   | (-0.05) | 2.14    | (-0.07) | 2.40    | (-0.07) |
| Wed 10 <sup>th</sup>   | 1.04   | (+0.01) | 1.29   | (-0.02) | 1.69   | (same)  | 2.21    | (+0.01) | 2.47    | (+0.02) |
| Tues 9 <sup>th</sup>   | 1.03   | (+0.03) | 1.31   | (+0.06) | 1.69   | (+0.06) | 2.20    | (+0.07) | 2.45    | (+0.07) |
| Mon 8 <sup>th</sup>    | 1.01   | (-0.01) | 1.25   | (-0.02) | 1.63   | (-0.03) | 2.13    | (-0.03) | 2.38    | (-0.03) |
| Fri 5 <sup>th</sup>    | 1.02   | (same)  | 1.27   | (+0.02) | 1.66   | (+0.05) | 2.16    | (+0.07) | 2.41    | (+0.06) |

## UK Libor Rates

| Date                   | 1 Month |         | 3 Months Libor |        | 6 Months Libor |         | 12 month Libor |         |
|------------------------|---------|---------|----------------|--------|----------------|---------|----------------|---------|
| Thurs 18 <sup>th</sup> | 0.51    | (same)  | 0.57           | (same) | 0.72           | (same)  | 1.02           | (+0.02) |
| Wed 17 <sup>th</sup>   | 0.51    | (same)  | 0.57           | (same) | 0.72           | (same)  | 1.00           | (same)  |
| Tues 16 <sup>th</sup>  | 0.51    | (same)  | 0.57           | (same) | 0.72           | (same)  | 1.00           | (-0.01) |
| Mon 15 <sup>th</sup>   | 0.51    | (same)  | 0.57           | (same) | 0.72           | (same)  | 1.01           | (same)  |
| Fri 12 <sup>th</sup>   | 0.51    | (+0.01) | 0.57           | (same) | 0.72           | (same)  | 1.01           | (same)  |
| Thurs 11 <sup>th</sup> | 0.50    | (-0.01) | 0.57           | (same) | 0.72           | (+0.01) | 1.01           | (+0.01) |
| Wed 10 <sup>th</sup>   | 0.51    | (same)  | 0.57           | (same) | 0.71           | (same)  | 1.00           | (same)  |
| Tues 9 <sup>th</sup>   | 0.51    | (same)  | 0.57           | (same) | 0.71           | (same)  | 1.00           | (same)  |
| Mon 8 <sup>th</sup>    | 0.51    | (same)  | 0.57           | (same) | 0.71           | (same)  | 1.00           | (same)  |
| Fri 5 <sup>th</sup>    | 0.51    | (same)  | 0.57           | (same) | 0.71           | (same)  | 1.00           | (same)  |

## Financial Markets – 13<sup>th</sup> June – 19<sup>th</sup> June

| Index    | 13/06/2015 | This Week | % Change |
|----------|------------|-----------|----------|
| FTSE 100 | 6,806.80   | 6,746.35  | -0.89%   |
| Dax      | 11,270.09  | 11,226.62 | -0.39%   |
| CAC 40   | 4,945.74   | 4,860.34  | -1.72%   |

| Index              | 13/06/2015 | This Week | % Change |
|--------------------|------------|-----------|----------|
| Dow Jones          | 18,309.37  | 18,115.84 | -1.06%   |
| S&P 500            | 2,108.86   | 2,121.24  | +0.59%   |
| Nikkei             | 20,407.08  | 20,174.24 | -1.14%   |
| Hang Seng          | 27,280.54  | 26,760.53 | -1.91%   |
| Shanghai Composite | 5,166.35   | 4,478.36  | -13.31%  |
| Sydney             | 5,552.10   | 5,591.50  | +0.71%   |

## Gold

|                        | Price   | Change | %     |
|------------------------|---------|--------|-------|
| Forex Gold Index \$/oz | 1201.85 | +23.35 | +1.98 |

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 | 1.40170 | +0.01570 | +1.13 | 1.40430 | 1.10650 |

### Sterling v Dollar

|           | 1buys   | Change   | %     | 52 Wk-h | 52 Wk-l |
|-----------|---------|----------|-------|---------|---------|
| US Dollar | 1.58610 | +0.03750 | +2.42 | 1.71520 | 1.44550 |