JohnCharcol

The *independent* mortgage experts

Market Report News

22nd April 2016

Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 12th May)
- ECB - Reduced to 0.00% - (next decision 5th June)

Bank of England governor Mark Carney, has dismissed accusations the Bank is too political, countering that it's the bank's duty to highlight "Brexit" risks . "Assessing and reporting major risks does not mean becoming involved in politics; rather it would be political to suppress important judgments." Mr Carney said the vote was the biggest risk to the UK's financial stability, adding that uncertainty had already hit the growth outlook. The governor went on to say that while the Bank of England had not made "and will not make" any overall assessment of the economics of the UK's EU membership, assessing the implications were necessary for it to do its job - maintaining monetary and financial stability. "As with the Scottish Referendum, we will communicate as much as is prudent about those plans in advance of any risk materialising and as comprehensively as possible once risks have dissipated." Mr Carney also reiterated that he saw "signs of growing uncertainty about the UK's macroeconomic outlook related to the referendum". There is the possibility that a vote to leave the EU would "reinforce existing vulnerabilities" in the UK economy, including a risk around the UK's trade deficit. He also highlighted the current account deficit, saying: "I think it's safe to say that it [the UK current account deficit] is running at a rate around 5%... and that is remarkably high for a large advanced economy... The risk around the challenge... is that the financing terms change on that current account. Increased cost to the economy - [a] consequence of that is a sharp slowing of the economy." Whilst he wouldn't comment in detail on the Treasury report warning that the economy could be 6% smaller by 2010 if it left the EU, he admitted that the report's "broad approach, to me, makes sense". He said a "Brexit" "might result in an extended period of uncertainty about the economic outlook" which would be likely to affect demand in the short term and could affect the supply side economy."

The ECB has said that Eurozone inflation could turn negative again this year, as the bank kept interest rates unchanged. ECB President Mario Draghi said inflation should start rising before the year is out and pick up further in 2017, however he warned that risks to economic growth remain "tilted to the downside". Mr Draghi urged EU governments to act "more decisively" to boost growth. "In order to reap the full benefits from our monetary policy measures, other policy areas must contribute much more decisively, both at the national and at the European levels," Mr Draghi. The ECB dismissed growing criticism in Germany of the bank's ultra-loose monetary policy: "We have a mandate to pursue price stability for the whole of the eurozone and not only for Germany alone. We obey the law, not the politicians because we're independent," Mr Draghi said. Inflation in the eurozone stood at zero last month - well below the ECB's target of close to 2%.

Bank and Building Societies

Nothing this week.

Housing / Mortgage Market

The CML has reported that the rush to beat the 31st March stamp duty deadline meant gross mortgage lending (GML) rocketed 43% month-on-month to £25.7billion last month. GML was also up 59% on March 2015, & the highest March figure since 2007. They also estimate Q1's GML at around £62.1billion, which about the same as Q4 last year, but up 39% on Q1 2015. A CML economist says: "Against a backdrop of a recovering market, the substantial jump in lending in March was significantly influenced by a late surge of activity to beat the government's stamp duty change on second properties, which came into effect at the start of April. "The distortion caused by this stamp duty change appears to be larger than any previous stamp duty change we've seen. "As a result, we expect there will be about 10,000 fewer mortgaged transactions each month in the second quarter of 2016 than would otherwise have been the case, offsetting the increase in activity seen in March." L&G Mortgage Club says: "Whilst these latest figures from the CML may seem to suggest that more people are securing mortgages, this rise in lending is actually the result of ever-increasing house prices. "The reality is that today's buyers are being forced to borrow more to cover the cost of their home, which is artificially inflating lending figures."

HMRC also reported a late surge in March, with 161,990 properties sold last month, the highest number June 2006, and up from 92,690 sales in February.

Mortgage Brokers are predicting a criteria war as increased government intervention pushes down volumes in the buy-to-let sector. Many lenders have revised their Buy To Let offerings in the past few weeks to try & prop up business levels. While some have cut rates by upto 0.35%, Barclays have thrown down the criteria gauntlet by now accepting Buy To Let application on a joint borrower / sole proprietor basis. Brokers say that after the latest rate reductions lenders will switch their attention to residential lending to compensate for lower Buy To Let volumes, with one commenting: "Altering criteria is surely a better way of achieving this but they appear to have their hands tied with the more stringent regulation that is now filtering through. "Those lenders with both residential and buy-to-let may try to make up a shortfall on buy-to-let by refocusing on residential, but can interest rates drop even further?" Criteria is becoming the main battleground, & with Buy To Let firmly fixed in the governments sights, lenders could turn more to residential. Thanks to the MMR & the introduction of affordability, there can be a huge difference between what lenders will offer and then price becomes very much a secondary consideration. Where previously lenders have been declining applications due to say minor adverse, they are now considering them. With the major high street players all trying to offer the cheapest mortgages, other lenders have to be more realistic with their pricing, & criteria.

Equifax Touchstone has said that Buy To Let mortgage sales in March fell 26.2% (£1.04billion) month-on-month. Their figure seems to fly in the face of other surveys that reported a surge in Buy To Let business ahead of the 31st March deadline. Equifax says the average value of a residential mortgage in March was £190,091 (2015: £179,187), and £157,819 for Buy To Let (2015: £151,753). Residential sales were up 1.4 % on February to £12.95billion, the highest month sales figures since the 2008 market crash. Combined, residential and Buy To Let sales for the intermediary market were down by 5.1% or £855.7million on the previous month. London saw a drop of almost 10% in mortgage sales on February. Equifax Touchstone says: "Recent buy-to-let mortgage flows indicate that borrowers took the advice of their lenders, and initiated transactions in good time to avoid an eleventh-hour panic. "The big question from here is, to what extent will the new stamp duty rates discourage investors from entering into new deals? With so much economic uncertainty, property remains an attractive investment option for many people. "Given the rollercoaster first quarter of 2016, it will be interesting to see where sales trends go from here."

Regional area	Change in total mortgage sales in March
Scotland	+ 8.2%
South East	- 1.4%
Midlands	- 2.3%
North East	- 3.8%
North and Yorkshire	- 3.9%
South Coast	- 4.9%
Wales	- 5.3%
South West	- 5.4%
Home Counties	- 7.5%
North West	- 7.8%
London	- 9.7%
Northern Ireland	- 19.8%

Estate Agency website, Rightmove also said that the rush to complete on Buy To Let property ahead of the Stamp Duty deadline, led to a 'chain reaction' for house prices. Their latest index found second-steppers dominating the market. They report that the average property price coming on to the market from mid-March to 9 April was up 1.3% month-on-month at new high of £307,033 driven by activity in the "second-stepper and top of the ladder sectors". However, smaller properties in the First Time Buyer & Buy To Let sectors, outside central London, saw a monthly price drop of 1.4% to £185,612. Rightmove commented: "The onset of spring is traditionally when the housing market swings into full-on action, and while the early Easter this year could be credited with its very active current state, the housing market actually received a much earlier kick-start at the end of November. Chains need a buyer at the bottom to enable everyone to move, and that was boosted by investors looking to avoid the 3% levy introduced on 1st April." Rightmove pointed out that: "While some felt that there would be a stampede of existing landlords selling to other landlords, these figures indicate that many of those who sold during the buy-to-let rush were actually first-time sellers looking to trade up."

UK

The ONS has said that retail sales volumes dropped 1.3% in March, compared to February, which was a bigger drop than analysts had been expecting. However, the figures 2.7% higher than March 2015. The indications from the figures are that inflation will continue to remain low. The amount spent in the retail industry slipped by 0.1% from a year earlier, and down 1.3% from February. Growth in online sales continued to outstrip sales from actual stores, with the value 8.9% higher than a year ago. One analysts said that the figures showed the impact of the early Easter, as well as bad weather from Storm Katie. The British Chambers of Commerce said the figures confirmed a weakening economy, adding: "Although longer-term comparisons show that sales are still expanding, the pace of growth is slowing. "These figures reinforce our view that UK economic growth slowed in the first quarter of 2016."

The government has missed its annual borrowing target by £1.8bilion. In the year to march, government borrowing stood at £74billion, against the OBR's forecast of £72.2billion for the 2015-16 financial year. On a note of caution the OBR reminded that the figures are subject to revision, & that the true picture was unlikely to be reflected in the initial estimate. Public borrowing in March fell by £2.6billion from a year earlier to £4.8billion, & Public sector net debt, (excl public sector banks), jumped £47.5billion to £1,594billion for the year to the end of March, the equivalent to 83.5% of GDP. The annual borrowing figure of £74billion was £17.7billion lower than the previous year, was mainly due to a fall of £20.4billion in central government net borrowing, although that was partly offset by a rise in local government borrowing of £4billion. The chancellor has said he will return the UK to a budget surplus by 2020, with the OBR forecasting a surplus of £10.4billion in 2019-20 and £11billion the year after. The EY ITEM Club, said: "While today's numbers are likely to cause the Chancellor some embarrassment - he also missed his objective to see the debt/GDP ratio drop in 2015-16 - the fairly modest overshoot means that the OBR's forecast may ultimately be vindicated."

The Chancellor has defended the Treasury's report that a "Brexit" would cost households an average of £4,300 a year. The report claimed that the economy would be 6% smaller if the country left the EU than it would otherwise be by 2030 & in turn this would leave a £36billion hole in the public finances. The Chancellor called the report "serious and sober", whilst the **Leave campaign predictably called it absurd". E**xit campaigners said the estimates made were "worthless" and "unbelievable" citing the Treasury's track record. The report looks at three scenarios in the event of a vote to leave the EU on 23rd June.

- Firstly - UK enters a "Norway-style" deal and joins the European Economic Area (EEA)
- Secondly, the UK executes a bilateral deal with the EU similar to the one being agreed with Canada, which has taken seven years to negotiate
- Third, the UK sets up a trade relationship with the EU under World Trade Organization (WTO) rules, similar to that between the EU and countries like Russia and Brazil

All the scenarios have strong negative impacts on the economy, with the predicted 6% contraction in GDP being based on the Canadian model with the EU. The Leave campaign, are claiming that there are no downsides to leaving, & suggest the UK could ape Canada's trade arrangement with the EU. However, the Chancellor described it as "economically illiterate" to believe that the UK could retain "all the benefits" of EU membership and "none of the obligations or costs". He added that any trade arrangement would lead to less access to the EU single market unless Britain was prepared to pay into the EU budget and accept the free movement of people. Interestingly, the Institute of Fiscal Studies, said voters can "put quite a lot of store" by the idea that a vote to leave would have a negative impact on the UK economy. "Exactly how negative? Much more difficult to be clear about," they said. Mining giant BHP Billiton, claimed said there would be a decade of uncertainty if the UK voted to leave the EU, and that the country would be reduced to "rule takers".

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Europe

Nothing this week

US

The Fed has reported that US industrial production dropped for the second month running in March, led by falls in mining and car manufacturing. Production was down 2% year-over-year, as weak demand from overseas markets pushed overall production for the year into a 0.6% decrease. Also motor vehicle and car parts production fell by 1.6% after climbing by 0.8% in February. Analysts think though that manufacturing may about to rebound, as the value of the dollar falls, with Capital Economics, saying the sector was "showing a Lazarus-like rise from the dead". The latest survey by the Institute for Supply Management said production rose in March, with experts largely seeing these surveys as an indicator of future output.

The Rest Of The World

Nothing this week

Markets, Swaps. Libor, Gold, Sterling

UK Swap Rates

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Thurs 21st	0. 87	(+0.02)	0.96	(+0.04)	1.13	(+0.05)	1.56	(+0.09)	1.82	(+0.05)
Wed 20th	0.85	(+0.01)	0.92	(same)	1.08	(same)	1.47	(-0.03)	1.77	(same)
Tues 19th	0.84	(same)	0.92	(same)	1.08	(+0.01)	1.50	(+0.01)	1.77	(+0.01)
Mon 18th	0.84	(+0.04)	0.92	(+0.06)	1.07	(+0.08)	1.49	(+0.09)	1.76	(+0.07)
Fri 15th	0.80	(-0.02)	0.86	(-0.02)	0.99	(-0.04)	1.40	(-0.06)	1.69	(-0.04)
Thurs 14th	0. 82	(+0.01)	0.88	(+0.01)	1.03	(+0.02)	1.46	(+0.03)	1.73	(+0.02)
Wed 13th	0. 81	(-0.01)	0.87	(same)	1.01	(-0.02)	1.43	(-0.03)	1.71	(-0.03)
Tues 29th	0. 82	(+0.04)	0.87	(+0.04)	1.03	(+0.06)	1.46	(+0.07)	1.74	(+0.07)
Mon 11th	0. 78	(+0.01)	0.83	(+0.02)	0.97	(+0.03)	1.39	(+0.03)	1.67	(+0.03)
Fri 8th	0. 77	(+0.02)	0.81	(+0.01)	0.94	(+0.01)	1.36	(+0.02)	1.64	(+0.02)

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 21st	0.51	(same)	0.59	(same)	0.74	(same)	1.02	(+0.01)
Wed 20th	0.51	(same)	0.59	(same)	0.74	(same)	1.01	(same)
Tues 19th	0.51	(same)	0.59	(same)	0.74	(same)	1.01	(same)
Mon 18th	0.51	(same)	0.59	(same)	0.74	(same)	1.01	(same)
Fri 15th	0.51	(same)	0.59	(same)	0.74	(same)	1.01	(same)
Thurs 14th	0.51	(same)	0.59	(same)	0.74	(same)	1.01	(same)
Wed 13th	0.51	(same)	0.59	(same)	0.74	(same)	1.01	(+0.01)
Tues 12th	0.51	(same)	0.59	(same)	0.74	(same)	1.00	(same)
Mon 11th	0.51	(same)	0.59	(same)	0.74	(same)	1.00	(same)
Fri 8th	0.51	(same)	0.59	(same)	0.74	(same)	1.00	(same)

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Financial Markets – 15th April – 22nd April

Index	15/04/2016	This Week	% Change
FTSE 100	6,343.65	6,328.24	**-0.25%**
Dax	10,028.55	10,348.70	**+3.19%**
CAC 40	4,486.82	4,561.29	**+1.66%**

Index	15/04/2016	This Week	% Change
Dow Jones	17,926.43	17,982.52	**+0.31%**
S&P 500	2,082.78	2,091.48	**+0.42%**
Nikkei	16,848.03	17,572.49	**+4.30%**
Hang Seng	21,316.47	21,467.04	**+0.70%**
Shanghai Composite	3,078.12	2,959.24	**-3.86%**
Sydney	5,224.10	5,299.20	**+1.44%**

Gold

	Price	Change	%
Forex Gold Index $/oz	1233.85	+15.4	+1.25

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	1.27160	+0.03270	+2.64	1.43680	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.43320	+0.01440	+1.01	1.71520	1.40950