22nd May 2015

Market Report

Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 4th June)
- ECB - Maintained at to 0.05% - (next decision 4th June)

The minutes of this month's MPC meeting have shown that once again the decision to keep the bank rate at 0.5% was unanimous. The minutes also revealed that inflation was likely to remain close to zero in the very near term, but house prices could face "upside risks" in the second half of the year. The committee says it will act to return inflation to its 2% over the next two years but it didn't say how. As with previous months, two members stayed "finely balanced" between voting to hold or increase the bank rates. The minutes also noted concern that GDP and productivity has slowed, with the Bank now expecting productivity to grow more slowly than previously thought, though they remain confident this will rebound to pre-crisis averages. They also said that while GDP dipped in Q1, they feel the figure will be revived upwards. The minutes also said that GDP should be closer to historical averages in Q2 due to the falling cost of food, energy and other prices. They went onto highlight that weakness in Q1 had also been witnessed in other countries. "This could reflect spillovers from a temporary global shock, or indicate a risk of a more persistent global slowdown than anticipated in the May Inflation Report projections," the minutes said.

Bank and Building Societies

Nothing this week

Housing / Mortgage Market

The CML has reported that the slow start to the year continued in April with lending at an estimated £16billion, a fall of 4% on the £16.7billion in April 2014. It means that so far only March has seen a year-on-year increase, however the CML is confident that the market is "on the cusp of a modest lending recovery". They said: "Household finances are generally improving as earnings growth continues to outstrip inflation, and mortgages are being offered at extremely competitive rates. As a result, we expect to see stronger lending in future months."

The CML has said that the slump in the remortgage market showed signs of ending in March, with the first year-on-year increase in 11 months. Some 26,600 remortgages were advanced in March, a 6% increase on March 2014,while the value of these loans was up by 14% to £4.2billion. However, the quarterly figure showed the recovery in remortgages is far from ingrained, with approx 75,400 loans advanced in Q1, a fall of 5% on Q1 2014. However, by value, these loans totalled £11.8billion, a 2% year-on-year rise. Although remortgages were on the up, purchase lending was down in March with 48,200 loans advanced representing a 4% drop on March 2014. The value of these loans was £8.2billion an increase of 4% on a year earlier. Buy-to-let lending stayed strong, with a 21% year-on-year increase to 18,200 with the value of £2.7billion, representing a 35% cent year-on-year rise. The CML says: "It was a slow start to activity in the first couple of months of 2015 but the market started to get out of the dip in March, a trend that we think will continue as the year goes on. We will have to wait and see how the housing market reacts to the general election result and the reduction in the risk of a prolonged period of market uncertainty which could well have been damaging to businesses and the housing market." The Intermediary Mortgage Lenders Association commented: "The fact that people are staying put for longer and mortgage pricing is at record lows gives people added incentives to reassess their existing loans and should help to bring the remortgage market further out of its slumber."

Moneyfacts has revealed that the cost of the average five-year fixed rate mortgage has fallen significantly over the past year, as many lenders launch their lowest ever rates. They said the average five-year fixed rate mortgage is now 3.45% which is way below the average two-year fixed rate (3.73%) this time last year. Moneyfacts said: "In the space of one year borrowers can now secure a five-year fixed rate deal for the same price or lower than its two-year alternative. "Longer-term fixed rates provide borrowers with extra security, and to be able to secure a five-year fixed deal at two-year prices is unheard of. Borrowers coming to the end of their fixed deal or those who are currently sitting on their SVR should seriously consider opting for a new fixed rate now, as rates will inevitably go up at some point in the future."

Rightmove has said that asking prices dipped in the run-up to the election, but were still 2.5% up annually. The average asking price in the UK was £285,891 in May, down 0.1% from £286,133 in April. Annually asking prices were up 2.5% year-on-year from around £278,900 in May 2014. Rightmove says: “Whilst activity was buoyant in early spring with demand for suitable housing outstripping the supply of property for sale in much of the country, it seems that pre-election jitters finally came home to roost in the final weeks of electioneering, with the average price of property coming to market dropping at this time of year for the first time in five years. This is an election-driven price stall which gives some buyers only short-term relief from the back-drop of a long-term housing shortage and many estate agents are now reporting a resurgence in interest following the surprise election result. Election uncertainty and particularly the threats of financial penalties to landlords and those with properties valued at over £2m put a brake on the market, and their removal gives a reason for a rebound in activity and prices.”

The ONS has reported that 125,110 houses were built in England in the 12 months to March, an 11% rise on the previous year. The figure also represented the highest number of homes built over a 12-month period since the end of 2009, but is still 29% below the peak of 183,600 in the year ending December 2007. There were also 140,500 homes started in the 12 months to March, an increase of 5% on the previous 12 months to March 2014, and again, 24% below the peak of 2007. The number of starts in England is estimated at 40,300 in Q1, up 11% on Q1 2014, with some 34,040 completions in the quarter, a 21% year-on-year increase. Analysts described the figures as “encouraging”, but called on the government to solve the country’s housing crisis with long term solutions that outlive a five-year government. Most market commentators believe there needs to be at 230,000 new homes built in England each year, and the Home Builders Federation said: “Significant constraints remain, and if the Government is to deliver on its manifesto commitment to further increase build rates we now need to see more action. ”Maintaining the Help to Buy scheme to 2020 is absolutely essential, as are policies to increase the speed at which land for housing comes forward through the planning system. Swift action by the new Government will allow the industry to maintain momentum and provide decent homes for thousands more people. Increasing housebuilding will also create tens of thousands of jobs and lead to infrastructure and amenity improvements in every part of the country.”

UK

Inflation moved into negative territory for the first time on record according to the ONS. The CPI fell to -0.1% in April, driven mainly by a drop in air and sea fares. Bank of England governor Mark Carney said he expected inflation to remain very low over the next few months, adding that "over the course of the year, as we get towards the end, inflation should start to pick up towards our 2% target". The Retail Prices Index (RPI) stayed unchanged from the month before at 0.9%.Most economists have said that the latest figure shouldn’t be mistaken for "damaging deflation". The consensus of opinion is that the current drop in the cost of living will be a big relief for family budgets, in an environment in which average wages were finally beginning to rise. The chief economist at Deloitte, said the fall was "likely to prove short-lived and positive for growth," adding that: "Falling prices raise consumer spending power and help keep interest rates low. This looks like the mild and benign variety of deflation, which is good news for consumers and for growth." Andrew Sentance, a former member of the MPC, said he didn’t expect the fall in prices to be sustained. "Once the impact of the big drop in oil prices drops out of the annual inflation rate, it will move back up to 1-2% over the next year or so. With wage inflation picking up, we may soon be considering the prospect of above-target inflation," he said. "In the meantime, flat or slightly falling consumer prices are good for growth, boosting real consumer spending power. So a temporary period of slightly negative inflation can be good for the UK economy."

The ONS has reported that government borrowing fell to £6.8billion in April, down from £9.3billion a year earlier. The figure was the lowest April government borrowing figure since April 2008, when public borrowing stood at £2.5billion. They also revised the previous estimate of borrowing for the full financial year up slightly to £87.7billion, from £87.3billion, though this is still well below the government's target of £90.3billion. Attention will now turn to the Chancellors upcoming budget on the 8th July, when he is expected to outline the strategy to eliminate the deficit by the end of 2017 and achieve a Budget surplus in 2018-19. He’s also expected to outline £30billion of spending cuts to government departments, including £12billion of cuts to welfare spending, and is possible he may revise the government's borrowing targets.

Europe

Nothing this week

US

Nothing this week.

The Rest Of The World

Japan's economy grew quicker than expected in Q1, boosting hopes of a recovery from last year's recession. GDP was 0.6% in the quarter compared to Q4 last year, marking its second consecutive quarter of growth, and was above the 0.4% analysts had expected. On an annualised basis, the economy grew 2.4% in the period against forecasts of 1.5%, and was described by analysts as "very positive". Japan relies on domestic consumption for about 60% of GDP, but it has been recovering from a sales tax hike in 2014 which dampened spending. Private consumption and capital spending were both up 0.4% in the quarter, though capital spending had been expected to rise by 0.8%. Capital Economics said that the acceleration in GDP "was mostly due to a jump in inventories", though a range of indicators point to a slowdown in Q2.

UK Swap Rates

Markets, Swaps. Libor, Gold, Sterling

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Thurs 21st	1.03	(+0.02)	1.27	(+0.02)	1.62	(+0.02)	2.05	(same)	2.32	(same)
Wed 20th	1.01	(+0.01)	1.25	(+0.01)	1.60	(same)	2.05	(+0.01)	2.32	(+0.02)
Tues 19th	1.00	(-0.01)	1.24	(-0.02)	1.60	(-0.02)	2.04	(-0.02)	2.30	(-0.03)
Mon 18th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fri 15th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Thurs 14th	1.01	(-0.02)	1.26	(-0.02)	1.62	(-0.05)	2.06	(-0.04)	2.33	(-0.02)
Wed 13th	1.03	(-0.02)	1.28	(-0.03)	1.67	(+0.02)	2.10	(+0.02)	2.35	(+0.02)
Tues 12th	1.05	(+0.01)	1.31	(+0.03)	1.65	(+0.02)	2.08	(+0.04)	2.33	(+0.04)
Mon 11th	1.04	(+0.05)	1.28	(+0.05)	1.63	(+0.07)	2.04	(+0.07)	2.29	(+0.07)
Fri 8th	0.99	(-0.02)	1.23	(+0.01)	1.56	(+0.01)	1.97	(+0.01)	2.22	(+0.02)

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 21st	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(+0.01)
Wed 20th	0.51	(+0.01)	0.57	(same)	0.71	(same)	0.99	(same)
Tues 19th	0.50	(same)	0.57	(same)	0.71	(+0.01)	0.99	(-0.01)
Mon 18th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fri 15th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Thurs 14th	0.50	(-0.01)	0.57	(same)	0.70	(-0.01)	1.00	(same)
Wed 13th	0.51	(same)	0.57	(same)	0.71	(+0.01)	1.00	(same)
Tues 12th	0.51	(same)	0.57	(same)	0.70	(same)	1.00	(same)
Mon 11th	0.51	(same)	0.57	(same)	0.70	(same)	1.00	(same)
Fri 8th	0.51	(same)	0.57	(same)	0.70	(same)	1.00	(same)

Financial Markets – 15th May – 22nd May

Index	15/05/2015	This Week	% Change
FTSE 100	6,973.04	7,041.37	+0.98%
Dax	11,559.82	11,820.56	+2.25%
CAC 40	5,029.31	5,145.13	+2.30%

Index	15/05/2015	This Week	% Change
Dow Jones	18,252.24	18,230.62	-0.12%
S&P 500	2,121.10	2,127.04	+0.28%
Nikkei	19,732.92	20,264.41	+0.47%
Hang Seng	27.862.21	27,992.83	+0.28%
Shanghai Composite	4,378.31	4,657.60	+6.38%
Sydney	5,730.00	5,668.20	-1.08%

Gold

	Price	Change	%
Forex Gold Index $/oz	1183.00	+21.10	+1.78

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	1.40430	+0.01930	+1.39	1.40430	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.55010	-0.02810	-1.78	1.71520	1.44550