24th 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)

The Minutes of October's MPC meeting showed that the ongoing issues in the eurozone are helping to keep a lid on the argument as to when to raise the bank rate. The minutes showed seven out of nine members voted against an increase to base rate, citing that the feeling that "further downside news in the euro-area had increased the risks to the durability of the UK expansion". It was also noted that a "premature tightening in monetary policy might leave the economy vulnerable to shocks." There was no real shocks as hawks Ian McCafferty and Martin Weale voted for a 0.25% increase the bank rate from the historic low of 0.5%, where it's stayed for the last 67 consecutive months. Messrs McCafferty and Weale still felt that economic circumstances warranted an immediate increase in the bank rate, and said that the low inflation rate (currently 1.2% in September) has been due to lower imports and commodity prices, and also highlighted the fall in the headline unemployment rate, plus a tightening labour market. Therefore, the two hawks view is that "since monetary policy could be expected to operate only with a lag, it was desirable to anticipate labour market pressures by raising bank rate in advance of them". Capital Economics commented that: "With the euro-zone's malaise unlikely to right itself quickly and inflation set to ease further over the coming months, it is hard to see what will trigger the MPC to raise interest rates over the next few months. Accordingly, while we maintain our view that base rate is likely to rise to only 1% by the end of 2015, we not think that May rather than February is the most likely date for the first hike." The minutes also highlighted that there was "insufficient evidence" of inflationary pressure to raise rates. "Given the deterioration we have seen in economic conditions, it is perhaps surprising they didn't cross the fence and join the majority voting to hold rates at 0.5%," said Hargreaves Lansdown, "I can't see the logic in voting for higher rates at present. I expect them [interest rates] to remain on hold until mid-2015 at the very earliest, and possibly not rise until much later in the year."

Bank and Building Societies

Nothing this week

Housing / Mortgage Market

The British Bankers Association (BBA) has reported that mortgage activity dropped in September compared to a year ago, giving further evidence that the housing market is "continuing to cool". The number of approvals for purchases was down 10% on September 2013, to 39,271. The BBA cited the ongoing effects of April's implementation of the MMR as one of the prime reasons activity continues to slow. There has been much debate about a "London and South East" price bubble, though approvals are still around 50% of 2006 levels when the housing market was in full swing. "A year ago there were many of us who were concerned by the heady pace of property price rises," said the BBA, "These figures suggest we are now experiencing a steadier housing market and that's no bad thing." Remortgages were also sharply down, with a fall of 24% in September.

The CML has also said that the housing market is "sitting on a plateau", despite the mortgage rate battle that is currently going on. September's gross mortgage lending totalled £17.8billion, down 1% on August, but 10% up on September 2013. The CML said any concerns that the Bank of England had about a potential housing market bubble were "abating", particularly as the surge in activity in London had slowed down. "Recent indicators and policy actions corroborate our view of a gentle easing in market conditions. There is growing evidence that mortgage lending activity, and the housing market, are sitting on a plateau," said the CML. Gross mortgage lending in Q3 was estimated at £55.5billion, up 8% on Q2, and up 13% on Q3 2013. The CML figures were broadly in line with the Bank of England's own Trends in Lending report, which said that net lending by mortgage lenders was broadly unchanged in the third quarter of the year compared with the previous three months. However, despite the steady levels of lending, lenders are currently engaged in some fierce competition over rates. Some analysts feel that the Now the MMR rules have had a chance to bed in, lender are now trying to catch up before the end of the year. One mortgage broker commented: "Many of the banks and building societies are not lending as much money as they would like and they are lowering their rates to tempt in more customers. Back in 2009 there was real surprise when the lenders started to offer sub-2%

mortgages. Many of the lenders [now] have the ability to offer even cheaper rates. The lenders love topping the best-buy tables and often undercut each other to make sure they are mentioned."

Mature borrowers are drawing down on their equity at the highest quarterly level since records began in 2002. Equity release totalled £375.5million in Q3, with more than 5,500 over 55's taking advantage of the facility. In fact the total borrowed in the first nine months of 2014 has already reached 95% of 2013's total. The average value of funds released also reached its highest level since 2002, with homeowners typically "releasing" £67,467. It is thought that as pension savings, and savings rates in general were failing to cover rising costs, more people were looking to releasing equity from their properties, though assisting younger family members to get on the property ladder also featured as a prime reason. The largest increase in custom was in the North East and the South East of England.

Figures from the National House Building Council (NHBC) show builders preparing to build new homes at a rate not seen since the before the financial crisis. There were 36,343 new home registrations in Q3, the highest number since 2007. The Help to Buy scheme has definitely boosted demand for housing, while increasing market confidence has made developers more willing to commit to new building projects. The NHBC's quarterly figure is up 8% on the same period last year. However, not all areas recorded an increase in the number of new home registrations, with both the East Midlands and the South of England showing a drop in the figure when compared to the same period in 2013.

Mortgage Brokers are urging lenders to loosen criteria rather than keep lowering rates, following the rate war that has seen sharp drops in the pricing of fixed rates. Most of September and October has seen widespread rate reductions, which have largely been put down to lenders desperate to hit their year-end lending targets, following sharp falls in swap rates. The Bank of England's recent credit conditions survey revealed that lenders expect this current rate war to carry on until at least the end of the year. However, brokers feel that lenders need to review criteria if they want to increase volumes, rather than just carry on slashing rates. One industry commentator said: "With falling swap rates and lenders' desire for business we really could see some unbelievable products once more. Cutting rates, however, is all well and good, but if lenders really want to attract more business then they have to start looking at easing criteria. "Mortgage prisoners, interest-only, older borrowers, self-employed and contractors would be a start; low rates will only have a certain effect."

UK

The ONS has reported that GDP for Q3 is estimated at 0.7%, a weaker figure than the 0.9% expansion recorded for Q2m but in-line with economists expectations. GDP was also 3% higher than Q3 of 2013. Service sector growth was up 0.7%, down from the 1.1% growth in Q2, whilst it was up by 0.5% in production, 0.8% in construction and 0.3% in agriculture. The UK looks set to be the fastest-growing advanced economy this year, however, Q3's figure will raise concerns that the recovery will fall victim to the slowdown affecting the eurozone. There's also worries that due to the ongoing poor wage growth many people don't feel that they're benefitting from the recovery yet. There are some positive signs of rebalancing, as construction and manufacturing grew along with the huge services sector, but the rate of growth has slowed and many analysts and economists are concerned this may be the start of a trend. With the aforementioned low wage growth, it's not likely there's going to be a surge in high street spending, and with the eurozone teetering on the brink again, plus Chinese growth slowing, an export boom isn't on the cards either. One economist said: "Headwinds from the current slowing of output in Europe and China are obvious dangers to the UK's growth picture, and with real wages staying determinedly negative at the moment, there are concerns about how much farther domestic demand levels can be pushed."

The EY Item Club is predicting that the UK economy will grow by 2.4% in 2015, a figure that's well below the 3.1% growth expected this year. They say the forthcoming election and attending political uncertainty will hold businesses back from investing. GDP will also be constrained by fears about the eurozone and the Ukraine conflict. The 2.4% figure is way under the predictions by the Bank of England, the CBI and the IMF, who have forecast 3%, 2.7% and 2.7%. The EY Item Club's chief economic adviser, said: "The forecast for GDP growth is still relatively good. What has changed is the global risks surrounding the forecast and the headwinds facing investment by firms. The UK's export outlook continues to look dreadful. The glimpse of economic rebalancing that we saw in the early part of this year has turned out to be a false dawn. Looming political uncertainty risks denting corporate confidence - the question now is how will these risks play out? I expect caution to become the order of the day." The Club also said that the MPC was unlikely to rush to increase the bank rate in the face of falling commodity prices and low wage growth. The report predicted inflation would remain low, averaging 1.3% in 2015.

The ONS has said that the government's borrowing rose to £11.8billion in September, an increase of £1.6billion on September 2013. The figure is a blow to the Chancellor, as economists were forecasting that borrowing would hold steady. Between April and September borrowing was £58billion, a rise of £5.4billion on the same period 2013, and an increase of 10.3%. It means that the governments plans to reduce the deficit are straying off track, which leaves the Chancellor little room for manoeuvre as he prepares his pre-election tax and spending plans, to be announced early December. Some good news though, was stamp duty is 25% up on the year, though income tax was flat, despite a record breaking fall in unemployment since last year, which would suggest that job growth has been mainly in low-paid work. The deficit has come down a third since 2010, but has stalled and is now heading in the wrong direction. Economists say the borrowing situation will limit the government's options in the run-up to next year's election. "The continued run of poor UK public borrowing figures looks set to severely hamper the chancellor's ability to announce giveaways to address his party's deficit in the national opinion polls before next year's general election," said Capital Economics. "Income tax receipts have been held back by weak earnings growth and the fact that much of the employment growth has been in low paid jobs or in self-employment," said another economist.

The ONS has also revealed that retail sales fell 0.3% in September, adding to fears that the economic recovery may be losing momentum. The fall was more than analysts had been expecting and were the weakest since January. It's thought that the mild weather in September stopped consumers buying winter clothes, though sales were weaker in other sectors too. Year on year, retail sales are up by 2.7%. Economists had been predicting September's retail sales to fall 0.1% month-on-month, with a gain of 2.8% for the year. A British Retail Consortium report last week showed that High Street spending suffered its biggest annual drop in nearly two-and-a-half years in September. The retail sector accounts for nearly 6% of the UK economy. Despite the fall, Capital Economics said it wasn't a "major cause for alarm", as in the long term, incomes are set to rise and employment grow. Interestingly the ONS released separate analysis of supermarket sales, which highlighted that sales volumes, have been pretty much static not just for the past year but since 2006. This would indicate that the big increase in the value of sales has been almost entirely due to rising prices, and that the increased price competition in the past year has brought that to a standstill.

The Resolution Foundation has said that a record five million UK workers are now in low-paid jobs, as those earning less than two thirds of median hourly pay (equivalent to £7.69 an hour) rose by 250,000 to 5.2million last year. The think-tank also said a "growing rump" of low-paid jobs was a problem because it kept tax revenues low, as workers in Britain were more likely to be low paid than workers in comparable economies like Germany and Australia. The report claimed that there's a serious problem of people being stuck in low-paid jobs, with almost one in four minimum wage employees still on that rate for the last five years.

Europe

The European Banking Authority (EBA) has announced that 24 European banks have failed "stress tests" of their finances, and have been given nine months to shore up their finances or risk being shut down. No UK banks are included. The review was based on the banks' financial health at the end of 2013, with ten of them having now taken measures to bolster their balance sheets in the meantime. All the remaining 14 banks are in the eurozone. The test were carried out on 123 EU banks by the EBA to determine whether they could withstand another financial crisis. The list of 14 includes four Italian banks, two Greek banks, two Belgian banks and two Slovenian banks. The good news is that overall, the "stress tests" would suggest that banks are in better financial shape than they were in 2011, the last time they were undertaken. At the same time, the ECB has carried out an overlapping survey of 130 eurozone banks, and that although 25 banks had failed its test, 12 of those had already taken remedial action. Analysts said the results of the tests were much as expected.

US

Nothing this week.

The Rest Of The World

China's economy grew at its slowest pace since the global financial crisis, causing speculation the government may introduce more stimulus measures. GDP was up by 7.3% in Q3, from a year earlier, against the 7.5% in Q2. Although the figure beat market forecasts of 7.2%, it was the weakest performance since March 2009. Industrial production also came in better than analyst estimates. Manufacturing output rose 8% in September against a year earlier. However, retail sales increased 11.6% from a year earlier, compared to forecasts for 11.7%. The slowdown would have been worse had it not been for a mini - stimulus to bolster the world's second largest economy. The government is trying to boost domestic consumption and end the economy's reliance on exports and investment for growth, however any major slowdown could lead to rising unemployment, potentially triggering social unrest. Overall, the figures show that growth continues to slow in the world's second-largest economy, raising concerns it may have knock-on effects on the strength of the global recovery.

Markets, Swaps. Libor, Gold, Sterling.

UK Swap Rates

Date	2 Year		3 Year		5 Year		10 Year		25 Year	
Fri 24th	1.12	(same)	1.39	(same)	1.79	(same)	2.33	(same)	2.79	(same)
Thurs 23rd	1.12	(+0.02)	1.39	(+0.02)	1.79	(+0.03)	2.33	(+0.03)	2.79	(+0.02)
Wed 22nd	1.10	(-0.02)	1.37	(same)	1.76	(+0.01)	2.30	(+0.02)	2.77	(+0.01)
Tues 21st	1.12	(+0.01)	1.37	(+0.02)	1.75	(+0.02)	2.28	(+0.01)	2.76	(+0.02)
Mon 20th	1.11	(-0.01)	1.35	(-0.02)	1.73	(-0.02)	2.27	(-0.03)	2.74	(-0.03)
Fri 17th	1.12	(+0.05)	1.37	(+0.08)	1.76	(+0.11)	2.30	(+0.11)	2.77	(+0.11)
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)

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Fri 24th	0.50	(same)	0.55	(same)	0.68	(same)	1.00	(same)
Thurs 23rd	0.50	(same)	0.55	(-0.01)	0.68	(-0.01)	1.00	(-0.01)
Wed 22nd	0.50	(same)	0.56	(same)	0.69	(same)	1.01	(same)
Tues 21st	0.50	(same)	0.56	(same)	0.69	(-0.01)	1.01	(-0.01)
Mon 20th	0.50	(-0.01)	0.56	(same)	0.70	(+0.01)	1.02	(+0.02)
Fri 17th	0.51	(same)	0.56	(same)	0.69	(same)	1.00	(same)
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)

Financial Markets – 17th October – 27th October

Index	17/10/2014	This Week	% Change
FTSE 100	6,243.23	6,731.36	+7.82%
Dax	8,722.85	8,935.71	+2.44%
CAC 40	3,989.57	4,107.88	+2.97%

Index	17/10/2014	This Week	% Change
Dow Jones	16,117.24	16,805.41	+4.27%
S&P 500	1,862.76	1,964.58	+5.47%
Nikkei	14,532.51	15,388.72	+5.89%
Hang Seng	23,023.21	23,143.23	+0.52%
Shanghai Composite	2,341.18	2,290.44	-2.17%
Sydney	5,260.10	5,441.90	+3.46%

Gold

	Price	Change	%
Forex Gold Index $/oz	1230.50	-7.50	-0.60

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	1.27150	+0.01480	+1.17	1.27800	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.61070	-0.00020	-0.01	1.71520	1.44550