25th September 2015

# Market Report

**Central Bank Rates**

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 8th October)
- ECB - Maintained at to 0.05% - (next decision 8th October)

**The Bank of England's chief economist Andy Haldane has warned that there may be a need to cut interest rates in order to prop up growth.** Mr Haldane claimed that the case for raising rates is "some way from being made", and is concerned that if inflation fails to pick up in the second half of the year, with the risks of fallout from emerging economies, if those risks do materialise, then a rate cut would be a viable option. Also softening employment figures along with weak data surveys regarding manufacturing and construction output, are indicating that growth could slow in the second half of the year. He went on to describe the turmoil in Greece and China as "the latest leg of what might be called a three-part crisis trilogy." Mr Haldane also said that: "The balance of risks to UK growth, and to UK inflation at the two-year horizon, is skewed squarely and significantly to the downside. Were the downside risks I have discussed to materialise, there could be a need to loosen rather than tighten the monetary reins as a next step to support UK growth and return inflation to target." However, his former MPC colleague and well known hawk, Andrew Sentance described Mr Haldane's comments as "spouting rubbish," stating that "Cutting interest rates from all-time low is unnecessary. Doing so when economy in 7th year of recovery totally foolish. Andy Haldane seems to have no concept of longer-term need for interest rates to strike balance between savers and investors." he added. One economist commented: "While there is currently considerable uncertainty as to when the Bank of England is likely to start raising interest rates, Andy Haldane's stance looks isolated within the MPC." It would appear that Mr Haldane's view will pit him against fellow MPC members Ian McCafferty, who's already voted for a rate hike in the last two MPC meetings", and Martin Weale and Kristin Forbes who both believe that interest rates will need to rise sooner rather than later.

**Bank and Building Societies**

**Nothing this week**

**Housing / Mortgage Market**

**The Bank of England's Financial Policy Committee (FPC) has announced that there's no case to regulate the buy-to-let market at present.** Following their latest meeting on Wednesday (23rd) the FPC said while current intervention was not deemed necessary, if the market continued to grow, predominantly through "looser underwriting standards", then sector could pose a potential risk to the UK's financial stability. Speculation had started over whether action was needed in the buy-to-let sector after the FPC's meeting in March, when they advised that it would be monitoring activity in the market closely. The latest minutes have repeated previous concerns that significant increases in buy-to-let activity during an upswing in the economy could add further pressure to house prices, prompting owner-occupier buyers to take on even larger loans. However, they feel that the tax relief changes announced in the budget should reduce investors' desire to take on increased leverage, adding that there was little evidence that lenders' underwriting standards in the buy-to-let sector had fallen. The FPC said it supported intentions set out by the Bank and the Prudential Regulation Authority to develop data sets to monitor underwriting standards within the market. The FPC also said that under current market conditions, Help to Buy (due to expire next year), doesn't pose a material risk to financial stability. They also stated that they didn't see a case for imposing a cap on house prices at present.

**The British Bankers Association (BBA) has said that expectations of a rise in interest rates has led to a boost in mortgage activity, with unsecured borrowing also on the up.** Despite continued speculation on the actual timing of the first rate rise by the Bank of England, the BBA said that continued "competitive" rates were mainly behind the increase in lending. The BBA said there were 80,221 home loans approved in August by the major High Street banks, and of these 46,743 were for purchases, which was up 16% year-on-year. Remortgages stood at 25,540 loans which was a 38% increase, and the highest level for four years. "Remortgaging numbers also continue to be strong, as shrewd homeowners snap up competitive deals," said the BBA. However, many industry commentators are now of the opinion that the date of the first rise, could be later in 2016, rather than earlier. One commented that: "The mortgage market remains over supplied with lenders having more money to lend than there are people looking for home loans. This means criteria will have to loosen and rates will have to remain low to ensure lenders hit their volume targets. "For many, the main issue is not so much finding a cheap mortgage rate but being able to prove affordability to satisfy the lender and meet [the regulator's] tighter criteria." The figures also showed an increase in unsecured lending, with credit card growth up 5.1% in August.

**The CML reports that the remortgage market's recovery continued in July with a year-on-year increase of 26%.** July saw 31,000 remortgages, with a value of £5.1billion, a rise of 34.2%. Purchases were up 4.8% on July 2014 to 67,800 with a value of £12.2billion a rise of 8.9%. Buy-to-let had a strong July, up 39.2% year-on-year to 25,200 and the value soaring 52% to stand at £3.8billion. The CML says: "The market has shown steady growth in house purchase and buy-to-let over the past few months with general improvements in economic factors across the UK allowing for more people to enter the property market. "This positive direction of travel going into the autumn months reinforces our recent revised forecasts that lending levels should continue to grow gradually over the rest of the year after a subdued beginning of the year." Overall lending in the first eight months of 2015 has exceeded annual lending as a whole during the credit crunch. So far this year gross mortgage lending has reached £138.6billion (including August's £20billion) which is higher than mortgage lending for the whole of 2010 (£133.8billion) and the whole of 2011 (£138.3billion). The CML said lending was "enjoying its best spell since 2008" & is undoubtedly helped by .borrowers looking to remortgage at the record low rates, prior to the Bank of England increasing interest rates at some time over the next few months. Gross lending last month was up12% on August 2014, but 8% down on July.

**The ONS has said that property prices are rising fastest in the East of England, backing up claims that property market "action" has moved out of London.** A typical home in the East increased by 8.3% in the year to the end of July. Prices in London slowed to an increase of 5.5%, slightly lower than the average in England of 5.6% & bringing to end the double digit inflation of the past few years. Overall, UK house prices increased by 5.2% in the year to the end of July, which is down from 5.7% in June. Prices rose by 6.7% in the South East, although here - as in the East and in seven other regions - the pace of price rises has slowed. It now looks like the ripple effect is spreading out from prime central London to the outskirts and those commuter areas where buyers can achieve better value for money. Prices in Scotland fell by 1.3% & 0.7% lower in the North East, while excluding London and the South East, property prices increased by 4.4%. The average home cost £295,000 in England, £173,000 in Wales, £154,000 in Northern Ireland and £196,000 in Scotland. In England, the highest average price was in London (£525,000) and the lowest in the North East (£156,000). The average price paid in the UK was £282,000, and analysts expect this to continue to rise, not least as a result of a lack of properties in the market. The ONS says: "Although weaker, the pace of house price growth remains strong by historical standards. "With improving economic conditions sustaining a recovery in housing demand while supply remains tight, the mismatch between demand and supply continues to support house price growth."

| **Annual House Price Change** | |
|---|---|
| **Nation / Region** | **Change** |
| **England** | **5.6% Rise** |
| **Wales** | **0.3% Rise** |
| **Scotland** | **1.3% Fall** |
| **Northern Ireland** | **7.4% Rise** |
| **North East** | **0.7% Fall** |
| **North West** | **3.7% Rise** |
| **Yorkshire & Humber** | **4.7% Rise** |
| **East Midlands** | **5% Rise** |
| **West Midlands** | **4.9% Rise** |
| **East** | **8.3% Rise** |
| **London** | **5.5% Rise** |
| **South East** | **6.7% Rise** |
| **South West** | **4.2% Rise** |
| Source: ONS 12 months to end of July | |

**The CML is warning policymakers that applying too much control to the Buy-To-Let sector could be "damaging".** The latest figures from the Bank of England and FCA revealed that buy-to-let lending increased by 18.5% on Q2 2104 to stand at £8.3billion this year, which has undoubtedly brought the sector under the glare of policymakers. Just two months ago, the Bank of England claimed the buy-to-let market could put the financial stability of the UK at risk due to the relative ease with which borrowers can access credit, and the Treasury is to consult over whether the FPC should be given additional powers to contain buy-to-let lending, which could include limiting LTV's or debt-to-income ratios. The CML says: "Lenders do, of course, accept that regulatory authorities must have the right tools to address any macro-prudential risks. But we urge the government and other authorities to consider the effects of uncertainty on the market and, in particular, the potential for a series of reforms to have cumulative, unintended and perhaps damaging consequences." As well as the potential intervention from the FPC, the sector also has the Mortgage Credit Directive to deal with, along with the Chancellors tax changes that are being phased in from April 2017. The Mortgage Credit Directive will regulate what it calls 'consumer buy-to-let' which will it is expected will include both "accidental landlords" and let-to-buy borrowers, showing once again the "one size will fit all" approach to regulation much favored by policymakers. The Treasury estimates this market to account for around 11% and the CML has warned that: "It is possible that some lenders, particularly small and medium-sized firms, may be cautious about offering consumer buy-to-let mortgages. One consequence may therefore be that "consumers" wanting to take out buy-to-let loans will have a narrower choice in the market, particularly in the short term." The CML added that: "The measures are likely to deter some landlords from expanding their portfolios, and may encourage others to reduce their property holdings. They could also lead landlords to seek to increase rents to cover some of their additional tax liabilities. Overall, the extent to which the measures may discourage future growth of buy-to-let and the private rented sector is unclear." The sector is expected to reach £30billion this year.

**The National House Building Council (NHBC) has said house-building activity is on course overtake 2014's total.** The NHBC said that 106,887 new homes had been registered up to August, compared to 95,524 in the same period last year, however last months figures were down 6%, the first monthly year-on-year decrease since January. In 2014 145,174 new homes were registered, up 9% on 2013 and best total since 2007. The figures are taken from builders who account for about 80% of homes built in the UK. Separately, government figures for completed homes showed house building at its lowest for more than 40 years in 2012-13, when 135,510 homes were completed, however in 2013-14 the figure rose to 140,960 and although the 2014-15 figures aren't available yet, the monthly stats so far would another increase. The NHBC said: "We are now seeing registration volumes fall in the public and affordable sector after a good start to the year. This may be due to housing associations holding back on developments in the light of welfare reforms and the cap on rental increases." Their warning came after the NAEA highlighted that the housing market was at "crisis point" after the number of properties for sale fell to an 11-year low.

**UK**

**The ONS has reported that CPI inflation fell back to 0% in August, down from July's 0.1%.** The drop was mainly due to a smaller rise in clothing prices and cheaper fuel prices. The Consumer Price Index, than the occasional blip either way, has been broadly flat for the past seven months, as inflation has failed to take off due to the sharp drop in oil prices and the continuing supermarket price war. Late last month, oil prices hit a six-and-a-half year low of around $42.50 per barrel. The Retail Prices Index (RPI) rose slightly to 1.1% from 1.0% in July. The rate of core inflation (stripping out the impact of changes in the price of energy, food, alcohol and tobacco) dropped 0.2% to 1.0% in August. "With consumer price inflation flat in August and core inflation easing back to 1.0%, there is little immediate pressure on the Bank of England to start raising interest rates," said one economist. "Further reason for Bank of England caution on interest rates is the recent evidence that the economy has hit a soft patch during the third quarter." The latest figure leaves inflation still way below the Bank of England's 2% target, and will certainly lessen the argument for a rise in the bank rate around the turn of the year as had been previously speculated. The BCC said that low inflation reinforced the case for keeping low interest rates. "Low inflation supports living standards by boosting disposable income and will help to sustain the economic recovery. However, last week's poor trade and manufacturing figures show that the recovery is still fragile, particularly in the face of major global uncertainties," they said. However, there are some economists who believe the economy is strong enough to override the concerns over economic uncertainty, China's woes, and the ever present shaky eurozone performance. The Institute of Directors said that "given the strength of the UK economy, pickup in output, tightening labour market, and tentative signs of productivity increases," the Bank of England should be prepared to follow the Federal Reserve should it raise interest rates this week. Andrew Sentance, ex-MPC member, now with PwC said the effect of falling energy and food prices pulling inflation down "will wear off in the months ahead, with CPI inflation likely to rise back to 1% to 2% in the UK by the first half of next year".

**The ONS has also revealed that average earnings have been growing at the fastest rate since 2009.** Between May and July, average earnings excluding bonuses grew at 2.9% compared to the same period last year, whilst including bonuses, average weekly earnings grew by 2.9%, though this was lower than the 3.3% growth rate in the three months to May. However unemployment edged up by about 10,000 compared with the previous quarter to stand at 1.82 million. The unemployment rate was 5.5%, unchanged from the previous quarter but down from 6.2% last year. "The long-awaited upturn in pay, which has been the missing element of the UK's economic recovery, looks to be finally upon us, reviving the prospect of a rate hike by the end of the year," said Markit's chief economist. "Strip out the public sector, and private sector pay rose at an annual rate of 3.4% (both including and excluding bonuses) in the three months to July. This is a rate of increase that would normally worry policymakers into a pre-emptive hike in interest rates to avoid upward wage pressures feeding through to higher inflation."

**The latest figures from the ONS have shown that government borrowing in August was higher than expected, and up slightly from a year earlier.** Last month's public sector net borrowing excluding banks was £12.1billion, which was £1.4billion higher than August 2014, higher than analysts expectations of a drop to about £9billion. However, borrowing overall for the first five months of the fiscal year was £38.4billion, which is £4.4billion below the level at the same point last year. Total debt was £1,506billion at the end of August - up £68.9billion on a year earlier. The ONS cited a drop in income tax receipts during August as the prime reason for the rise, along with fall in the amount of corporation tax on the previous year. The ONS did highlight that the monthly figures are volatile and that figures for the financial year so far will offer a better picture. The Treasury: "Britain's hard work is paying off with cumulative borrowing £4.4bn lower than at this point last year. "We have more than halved the deficit but there's more to do with debt remaining higher than 80% of GDP." Capital Economics said the figures "bring the recent run of good news for the chancellor to an abrupt end. The public sector net borrowing total of £12.1billion was significantly higher than the consensus forecast of £9.2billion." The Office for Budget Responsibility (OBR) forecast back in July that government borrowing would £69.5billion in the current financial year, down from £89.2billion in the previous year.

**Also from the ONS, is new that retail sales volumes rose by 0.2% in August. After a couple of months of weak growth, sales were up 3.7% year-on-year year, with wage growth along with low inflation boosting consumer spending.** Sales volumes at food stores fell 0.9%, posing the biggest drag on the overall figure, but they were up 0.8% from a year ago.

**<u>Europe</u>**

**Nothing this week.**

**<u>US</u>**

**After it being an odds-on cert, the Fed has decided not to raise interest rates this month, mainly due to worries over the strength of the global economy.** Nine members of the Fed committee voted to hold, with just one vote for a 0.25% rise. The statement from the Fed said: "Recent global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near term." Signs of weaker growth and stock market turmoil in China have led to fears among investors about US economic growth. "We've long expected to see some slowing in Chinese growth over time as they rebalance their economy. There are no surprises there. The question is whether or not there will be a risk of a more abrupt slowdown than most analysts expect." The Fed's long-term policy is to keep interest rates low until employment improves further and inflation is back closer to the 2%. The Fed said it wants to see more improvement in the jobs, despite August's unemployment rate reaching the lowest level since 2008 at 5.1%. The Fed also wants to be "reasonably confident" that inflation will increase, but they added that: "The committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run." Most analysts are now speculating that there'll be 0.25% rise this year, then 1% next year, and 1.25% in 2017, and Fed chief Janet Yellen has said that the US remains "on track" for an interest rate rise this year, saying: "Most [policymakers] including myself, currently anticipate... an initial increase in the federal funds rate later this year, followed by a gradual pace of tightening thereafter."

**The Commerce Dept has said US retail sales increased by 0.2% in August, with core sales (excludes cars, petrol, building materials and restaurants) up by 0.4%.** However, factory production slipped by a more than expected 0.5%, and manufacturing output was down as car production slowed sharply, after July's 0.9% rise. The manufacturing sector has been struggling in the face of a strong dollar and slack oversees economies. The retail sales figures which have been boosted by rising employment, suggest the recent stock market turmoil has had little impact on consumer spending. "Today's data are positive news for final demand in the third quarter and should give the Fed more confidence in the spending outlook," said one economist.

**The Dept of Labor is reporting that consumer prices fell in August as petrol prices dropped and a strong dollar curbed the cost of goods.** CPI slipped 0.1% last month, recording the first decline since January, however in the 12 months to August, CPI rose 0.2% following a similar increase in July. Core CPI, which excludes volatile fuel and food price, rose 0.1% for a second month.

## The Rest Of The World

**Japan's core inflation has fallen on an annual basis for the first time in over two years in August.** The core CPI, which includes oil but not fresh food prices, declined 0.1% from a year ago - the first drop since April 2013. The headline CPI was up 0.2% from a year ago, but staying unchanged on July. The latest figures will not ease deflationary worries for the country's policymakers. Despite the drop in inflation Even though the fall in prices last month was expected, economists said the latest reading would result in the Bank of Japan stepping up its pace of easing in October.

**China's factory activity contracted at the fastest pace for six and a half years in September, according to the Caixin/Markit manufacturing purchasing managers' index (PMI).** The index fell to 47 in September, below forecasts of 47.5 and down from 47.3 in August. (Readings below 50 indicates contraction) The latest figures will do nothing to ease fears about slowing growth in the country. The latest blow comes hard on the heels of the Asian Development Bank's cut in Chinese GDP to 6.8%, which is below the government's target of about 7%.An acceleration in shrinking factory production, export orders and employment were the key factors behind the weaker-than-expected reading.

## Markets, Swaps. Libor, Gold, Sterling

### UK Swap Rates

| Date | 2 Year | | 3 Year | | 5 Year | | 10 Year | | 20 Year | |
|---|---|---|---|---|---|---|---|---|---|---|
| Thurs 24th | 0.94 | (-0.03) | 1.12 | (-0.11) | 1.42 | (-0.04) | 1.83 | (-0.04) | 2.08 | (-0.04) |
| Wed 23rd | 0.97 | (+0.01) | 1.23 | (same) | 1.46 | (+0.01) | 1.87 | (+0.02) | 2.12 | (+0.01) |
| Tues 22nd | 0.96 | (-0.06) | 1.15 | (-0.07) | 1.45 | (-0.09) | 1.85 | (-0.12) | 2.11 | (-0.11) |
| Mon 21st | 1.02 | (+0.02) | 1.23 | (+0.04) | 1.54 | (+0.04) | 1.97 | (+0.07) | 2.22 | (+0.07) |
| Fri 18th | 1.00 | (-0.02) | 1.19 | (-0.03) | 1.50 | (-0.03) | 1.90 | (-0.02) | 2.15 | (-0.02) |
| Thurs 17th | 1.02 | (-0.02) | 1.22 | (-0.04) | 1.53 | (-0.03) | 1.92 | (-0.06) | 2.17 | (-0.04) |
| Wed 16th | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Tues 15th | 1.04 | (+0.01) | 1.26 | (+0.04) | 1.56 | (+0.02) | 1.98 | (-0.04) | 2.21 | (same) |
| Mon 14th | 1.03 | (+0.01) | 1.22 | (+0.01) | 1.54 | (+0.02) | 1.92 | (+0.02) | 2.16 | (+0.02) |
| Fri 11th | 1.02 | (-0.02) | 1.21 | (-0.04) | 1.52 | (-0.05) | 1.90 | (-0.04) | 2.14 | (-0.04) |

### UK Libor Rates

| Date | 1 Month | | 3 Months Libor | | 6 Months Libor | | 12 month Libor | |
|---|---|---|---|---|---|---|---|---|
| Thurs 24th | 0.51 | (same) | 0.59 | (+0.01) | 0.74 | (-0.01) | 1.05 | (same) |
| Wed 23rd | 0.51 | (same) | 0.58 | (-0.01) | 0.75 | (same) | 1.05 | (same) |
| Tues 22nd | 0.51 | (same) | 0.59 | (same) | 0.75 | (same) | 1.05 | (same) |
| Mon 21st | 0.51 | (same) | 0.59 | (same) | 0.75 | (-0.01) | 1.05 | (-0.02) |
| Fri 18th | 0.51 | (same) | 0.59 | (same) | 0.76 | (same) | 1.07 | (same) |
| Thurs 17th | 0.51 | (same) | 0.59 | (same) | 0.76 | (+0.01) | 1.07 | (+0.02) |
| Wed 16th | 0.51 | (same) | 0.59 | (same) | 0.75 | (same) | 1.05 | (same) |
| Tues 15th | 0.51 | (same) | 0.59 | (same) | 0.75 | (same) | 1.05 | (same) |
| Mon 14th | 0.51 | (same) | 0.59 | (same) | 0.75 | (same) | 1.05 | (same) |
| Fri 11th | 0.51 | (same) | 0.59 | (same) | 0.75 | (same) | 1.05 | (same) |

## Financial Markets – 11th September – 25th September

| Index | 11/09/2015 | This Week | % Change |
|---|---|---|---|
| FTSE 100 | 6,116.04 | 6,120.04 | +0.07% |
| Dax | 10,134.76 | 9,740.84 | -3.89% |
| CAC 40 | 4,554.38 | 4,513.40 | -0.89% |

| Index | 11/09/2015 | This Week | % Change |
|---|---|---|---|
| Dow Jones | 16,260.79 | 16,201.32 | -0.36% |
| S&P 500 | 1,941.87 | 1,932.24 | -0.50% |
| Nikkei | 18,264.22 | 17,880.51 | -2.10% |
| Hang Seng | 21,504.37 | 21,186.32 | -1.50% |
| Shanghai Composite | 3,200.23 | 3,092.35 | -0.99% |
| Sydney | 5,096.30 | 5,076.70 | -3.37% |

## Gold

| | Price | Change | % |
|---|---|---|---|
| **Forex Gold Index $/oz** | 1145.50 | +39.15 | +3.53 |

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** | 1.36200 | -0.00530 | -0.38 | 1.43680 | 1.10650 |

### Sterling v Dollar

| | 1buys | Change | % | 52 Wk-h | 52 Wk-l |
|---|---|---|---|---|---|
| **US Dollar** | 1.51740 | -0.02560 | -1.66 | 1.71520 | 1.44550 |