JohnCharcol
more than mortgages

27th March 2015

Market Report

Central Bank Rates

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

Bank and Building Societies

Nothing this week.

Housing / Mortgage Market

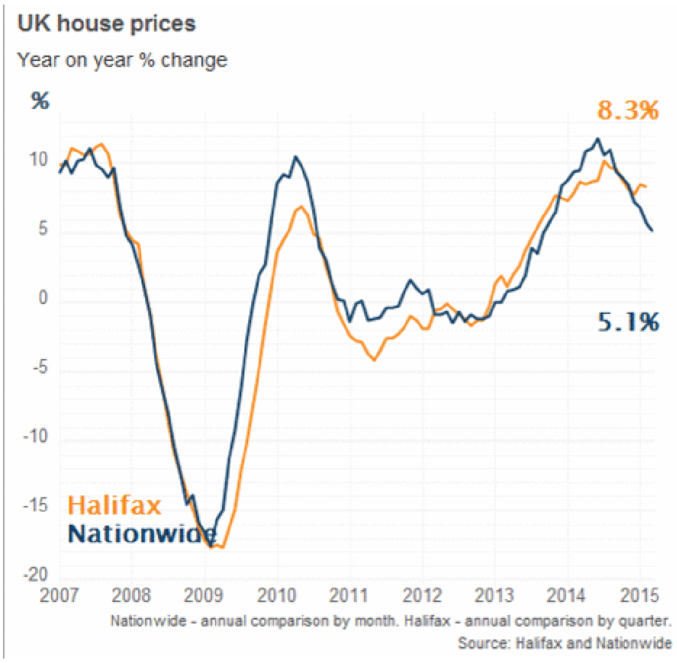
The British Bankers' Association (BBA) figures for February have revealed that approvals plummeted 20.2% year-on-year. There were 61,361 loans approved last month, down from 76,938 in February 2013, with the value also falling 16.5% from £11.5billion to £9.6billion. Drilling down, purchase approvals were down 20.2% from 46,785 to 37,305 with the value down 16.1% from £7.4billion to £6.2billion over the period. Remortgages were also down 16% from 21,861 to 18,357 with gross remortgage lending falling 9% from £3.3billion to £3billion over the same period. Approvals for loans for other purposes, which includes further advances, was also down 31% in numbers and 12.2% in value. Although the year-on-year figures are down sharply, February's approvals were up 4.1% on January. The BBA said: "The increase in mortgage approvals [between January and February] is welcome news and a sign that the housing market is beginning to improve. We're seeing stronger demand for mortgages as consumers take advantage of some of the very competitive deals currently available. Demand for loans and other types of personal borrowing is rising at its fastest rate since the financial crisis. Consumers are feeling increasingly confident about buying big ticket items, such as cars or home improvements, as the recovery really begins to take hold."

The ONS has reported that average house prices are continue to cool across the UK, with a drop of 0.2% between December and January, marking the first monthly fall since March last year. The ONS figures, are based on mortgage completions, and showed annual property price inflation fell to 8.4% in January, which was down on the 9.8% in December. The data also showed that London prices are also slowing, with annual property inflation at 13% in January, way down from the peak of 20.1% in May 2014. Some analysts said they expected the market to regain momentum later this year, though others remain more cautious. "Such lukewarm results show the traditional January surge in demand for properties has not materialised," said one estate agent, "However, average prices are still well up on last year, and there's nothing to suggest the property market has run out of steam." Outside London, the East was up 9.9%, the South East up 7.6%, however excluding London and the South East, UK house prices were up 6.5% in the 12 months to January. Although prices are slightly down on the end of 2014, they are still higher than the start of 2014 and in many areas are close to their 2007 peak.

	12-month % increases
2014 Jan	**6.8**
Feb	9.2
Mar	8.0
Apr	9.9
May	10.4
Jun	10.2
Jul	11.5
Aug	11.7
Sep	12.1

Oct	10.4
Nov	9.9
Dec	9.8
2015 Jan	**8.4**

The Nationwide has reported that housing market activity has "remained subdued", with annual property price growth slowing for the seventh month in a row. Annual price growth slipped to 5.1% in March, down from February's 5.7%, while on a monthly basis prices crept up 0.1% in the month, meaning the average price is now £189,454. Although property price across the country as whole has quietened, London and the south east continue to dominate with the strongest growth. However, Nationwide has said that was a "noticeable softening this quarter, particularly in London". Their chief economist, said: "Economic conditions have remained supportive, with labour market conditions continuing to improve and mortgage interest rates close to all-time lows. "Nevertheless, the pace of housing market activity has remained subdued, with the number of mortgages approved for house purchase in January around 20% below the level prevailing one year ago." Many would be first time buyers still feel prices are beyond their level of affordability. Nationwide also highlights that housebuilding, that many feel is the key to greater affordability, has grown in areas when property prices have seen the most rapid growth. Nationally prices are still rising, but the annual rate of increase is less than half the level seen during much of last summer, though 2% higher than their level before the financial crisis. However, this national average hides a wide disparity across the regions, where many average property values remain well below their 2007 peak.



HMRC has said that the number of residential property transactions dropped 7.9% year-on-year in February, with 100,510 transactions last month compared to the 109,100 a year earlier. However, the number of transaction was up 2.5% from January's 98,050. The number of non-residential transactions increased 7% year-on-year, from 9,250 in February 2014 to 9,900. The number of transactions was up 2.7% from 9,650 in January. One industry expert said: "The housing market has been rife with speculation about whether the general election will cause a big slowdown in the property market, and February's figures reflect the further tapering of activity by buyers and sellers alike as uncertainty looms. However, the year-on-year comparison between this year and last makes for more encouraging viewing than many anticipated; a seasonally adjusted fall of 7.9% compared to last year certainly doesn't suggest that the life has been sucked out of the market. We expect the number of housing transactions to continue their long-term recovery once greater certainty is in place after the election." Adding that:

”Overall the outlook for housing transactions is positive and sustainable, particularly as the political parties have made new build and housing supply a key part of their election campaigns so far.” (HMRC’s figures are seasonally adjusted.)

UK

The ONS has revealed that CPI inflation fell to 0% in February, the lowest since records began. The drop was driven mainly by lower food and computer goods prices, to leave the index at the lowest rate since estimates began in 1988. The drop was also sharper than many analysts had expected, with most expecting a rate of 0.1%. A senior economist at Hargreaves Lansdown, said the UK "took another step towards deflation" in February, adding that: "It looks likely the rate will drop below zero at some point in the coming months, and hover around zero for most of the year." However, many economists don’t expect deflation to be prolonged, partly due to pressure from a bounce back in oil prices, with the BCC even saying that low inflation could support economic growth. Their chief economist said: "We remain convinced that there is very little risk of a long period of deflation. Inflation in the service sector, which accounts for 80% of the UK economy, remains firmly above the government's 2% target, and core CPI inflation in February was 1.2%.Together with higher earnings, lower inflation is boosting people's spending power, and will contribute to economic growth in the year ahead." The CBI said that: "Despite inflation dropping to zero, it is unlikely we will see falling prices for a prolonged period, particularly as the pressure from lower oil prices fades," adding that: "With the MPC still alert to the risk of very low inflation becoming entrenched, a rise in interest rates anytime soon seems off the cards."

Accountancy firm PricewaterhouseCoopers (PwC) has said that the average UK household will have unsecured debts of £10,000 by the end of next year. The figure includes spending on credit cards, bank borrowing and student loans, but excludes mortgages, and will be the largest amount in cash terms that consumers have been in debt. However, a survey conducted alongside the report suggested that most consumers are confident about paying off those debts, especially with the continuing low level of interest rates, which keeps borrowing cheap. According to PwC, unsecured borrowing increased by £19.7billion last year, or 9%. One of the biggest reasons for the increase is the amount of money being borrowed by students, which was responsible for 46% of the increase. Borrowing on credit cards accounted for 22%, with the rest from other sources, such as loans and overdrafts. The PwC report warned that even though most consumers were in control of their debts now, that could be tested when interest rates eventually rise. They are concerned that the size of debts in relation to household income could exceed its peak, which occurred in 2008, just before the financial crisis. "Consumers could begin to feel squeezed once again," said PwC. As far as secured lending is concerned, the Bank of England has previously said that a sudden rise in interest rates could leave more than 600,000 families vulnerable to a rise in mortgage rates, although they have also said that overall household debt levels were below the long-term average.

The ONS has said that February’s retail sales grew more strongly than expected up 0.7% compared to January. Last month sales were up 5.7% against February 2014, bolstered by the recovery in the housing market, as rising home sales boosted purchases of products such as furniture, carpets, decorating products, etc..... Average store prices fell for the eighth month running, by 3.6% compared to a year earlier, with the main driver being a drop in fuel prices, which fell more than 15% in the year to February 2015. Sales volumes (changes in the number of items sold each month) grew in February, up by 0.3% on January and up 2.2% than February 2014. The steady increase in retail sales adds to the picture of a recovering economy, though will do nothing to ease fears that once again growth is too reliant on consumers. "Although these figures are good news and will strengthen confidence, we must remember that the UK's economic growth remains unbalanced and is too reliant on consumer spending," said the British Chambers of Commerce. "UK exporters are still facing huge challenges, particularly in the eurozone, which is our largest trading partner." January’s figures were also revised upwards with a 0.1% rise on December, rather than the 0.3% fall originally recorded. Analysts have put the increase in sales down to the record low inflation, which in turn has boosted real incomes. The EY ITEM Club, said: "Falling prices look a prime candidate in explaining February's strength," and expectations that prices might fall further doesn’t seem to be deterring consumers off spending. "Fears that falling prices might encourage consumers to defer purchases, risking a downward deflationary spiral, currently look very wide of the mark."

Europe

The March CIPS/Markit composite purchasing managers' index (PMI) has indicated that business output in the eurozone grew at its fastest rate in nearly four years this month. The index climbed to 54.1, from February’s 53.3 - it's highest level in 46 months. (Readings above 50 indicates growth). Markit said the survey pointed to Q1 GDP of 0.3%, which would match the eurozone growth figure for Q4 of 2014. They said that the improvement in business output was the result of growth in new orders that had increased at their fastest rate since 2011.Employment also grew at its fastest rate since August 2011. Job creation in the service sector "held steady" near February's four year high, while in the manufacturing sector it grew at its quickest pace since April last year. Crucially, the survey showed that deflationary pressures eased in March with prices falling at the slowest rate since July. Markit said this reflected the need for some firms to pass on costs to customers. There's also some anecdotal evidence that the ECB's stimulus measures were beginning to be felt, as manufacturing prices rose for the first time in seven months, albeit only modestly, while in the service sector, prices fell, but at the weakest rate of decline for nine months. Markit, said the survey results indicated some impetus from the ECB's economic stimulus programme, which began at the start of the month, although it was coming "at a time when there was already growth". They added: "All the indicators are pointing to a further upturn, firms are taking on staff and it augurs well for the year ahead." Separate PMI surveys for Germany and France, the eurozone's two largest economies, were also released, with business activity in Germany at its highest level in eight months as new orders hit a nine-month record. German factory output was also at its highest for nearly a year catching up with the strong pace of growth in the service sector, which hit a six-month high. In France business activity increased for a second month, though at a slightly more modest pace than in February, when it hit a 42-month high. Business output in France is still running well below that of Germany, however, new orders were at their highest level since August 2011. Some bad news though was that French manufacturing output fell for the tenth month in row. One economist said called the latest PMI "highly encouraging" adding the improvement in manufacturing activity was welcome. "It is not just the headline figures that are encouraging but the whole tone of the surveys. Eurozone economic activity is strengthening as very low oil prices, a weak euro, major ECB stimulus and much reduced fiscal headwinds foster an improved growth environment," they added.

France has cut its budget deficit target for 2015 signalling that the economic recovery is gathering pace. After the better-than-expected deficit data for 2014, the Finance Minister said there were reasons to be confident about growth. The 2014 deficit was 4% instead of the 4.4% forecast, and should fall to about 3.8% this year, which could mean GDP will beat the government's 1% forecast. The eurozone's second-largest economy grew by 0.4% in 2014, which was the same as 2013. France, has repeatedly missed its fiscal targets, but is now is confident it can finally bring the deficit below the EU cap of 3% of GDP in 2017.

US

The Dept of Labor has said that US consumer prices rebounded in February as petrol prices rose for the first time since June 2014. The CPI rose by 0.2% in February, but remained unchanged from a year earlier, however the monthly rise follows three consecutive months of declines, including a 0.7% drop in January. Petrol prices rose 2.4% in February, after having fallen by 18.7% in January, though oil prices remain volatile. Moody's commented: "Global oil prices have bounced around and the appreciating US dollar will continue to put downward pressure on core prices," adding "The February CPI doesn't increase the odds of the Fed beginning to normalise interest rates in June." Most economists expect the strong dollar to keep inflation in check over the coming months, especially as it should make imported goods cheaper. The dollar has risen sharply against the euro and yen over the past year, as the US economy has outperformed those of Europe and Japan, while job growth in the US has been more robust too. Normally this would put pressure on the Fed to increase rates, but with the CPI way under its 2% target, the Central Bank is playing it cautiously.

The Rest Of The World

Japan has reported that annual core consumer inflation stopped rising for the first time in nearly two years in February. CPI was unchanged from a year ago, stripping out the effect of last year's sales tax increase. The latest figure is moving further away from the Bank of Japan's target of 2% inflation. The headline core CPI, (including oil but not fresh food prices), rose 2% from a year ago, just below market expectations of a 2.1% rise. The Japanese economy came out of recession in Q4 of 2014, though the recovery remains extremely fragile, with sluggish household and business spending. Economists say the data puts more pressure on the central bank to expand its monetary policy as falling oil prices keep inflation subdued, however analysts aren't expecting additions to last years stimulus plans until the second half of 2015, due to an anticipation of lower inflation. Also with household spending falling 2.9% in February from a year ago, plus retail sales down 1.8%, just goes to illustrate the tightrope policymakers are walking in trying to steer the economy towards a sustainable recovery. Japan's unemployment rate, however, fell to 3.5% in the same time period, which is near to what economists see as full employment. One economist said the data was "good deflation" and that the good news was prices were coming down while wages were going up. "So a feel-good factor is starting to come back and that's what's going to generate a domestic demand recovery."

UK Swap Rates

Markets, Swaps. Libor, Gold, Sterling

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Thurs 26th	0.90	(+0.04)	1.10	(+0.07)	1.39	(+0.10)	1.71	(+0.09)	1.96	(+0.08)
Wed 25th	0.86	(+0.01)	1.03	(same)	1.29	(same)	1.62	(+0.02)	1.88	(+0.02)
Tues 24th	0.85	(-0.02)	1.03	(-0.01)	1.29	(-0.01)	1.60	(-0.01)	1.86	(-0.01)
Mon 23rd	0.87	(-0.01)	1.04	(-0.02)	1.30	(-0.01)	1.61	(-0.01)	1.88	(same)
Fri 20th	0.88	(-0.01)	1.06	(+0.01)	1.31	(-0.01)	1.62	(-0.02)	1.88	(-0.03)
Thurs 19th	0.89	(-0.04)	1.05	(-0.08)	1.32	(-0.07)	1.64	(-0.08)	1.91	(-0.08)
Wed 18th	0.93	(-0.04)	1.13	(-0.04)	1.39	(-0.06)	1.72	(-0.06)	1.99	(-0.06)
Tues 17th	0.97	(+0.02)	1.17	(+0.01)	1.45	(+0.01)	1.78	(-0.01)	2.05	(same)
Mon 16th	0.95	(-0.13)	1.16	(-0.17)	1.44	(-0.22)	1.79	(-0.26)	2.05	(-0.27)
Fri 13th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 26th	0.50	(same)	0.56	(same)	0.68	(same)	0.96	(same)
Wed 25th	0.50	(same)	0.56	(same)	0.68	(same)	0.96	(same)
Tues 24th	0.50	(-0.01)	0.56	(-0.01)	0.68	(same)	0.96	(-0.01)
Mon 23rd	0.51	(same)	0.57	(same)	0.68	(same)	0.97	(same)
Fri 20th	0.51	(+0.01)	0.57	(+0.01)	0.68	(same)	0.97	(same)
Thurs 19th	0.50	(-0.01)	0.56	(same)	0.68	(same)	0.97	(same)
Wed 18th	0.51	(same)	0.56	(same)	0.69	(same)	0.97	(-0.01)
Tues 17th	0.51	(same)	0.56	(same)	0.69	(same)	0.98	(same)
Mon 16th	0.51	(same)	0.56	(same)	0.69	(+0.01)	0.98	(same)
Fri 13th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Financial Markets – 20th March – 27th March

Index	20/03/2015	This Week	% Change
FTSE 100	6,985.84	6,855.80	-1.86%
Dax	12,038.16	11,832.66	-1.71%
CAC 40	5,071.70	5,007.99	-1.26%

Index	20/03/2015	This Week	% Change
Dow Jones	18,089.52	17,692.98	-2.19%
S&P 500	2,102.73	2,056.15	-2.22%
Nikkei	19,560.22	19,285.63	-1.40%
Hang Seng	24,375.24	24,486.20	-0.45%
Shanghai Composite	3,617.32	3,691.10	+2.04%
Sydney	5,936.30	5,888.90	-0.80%

Gold

	Price	Change	%
Forex Gold Index $/oz	1198.00	+26.25	+2.24

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	1.37190	-0.00710	-0.51	1.37390	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.49080	+0.00090	+0.06	1.71520	1.44550