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The *independent* mortgage experts

Market Report News

28th 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)

MPC member Gertjan Vlieghe has said that the bank rate could go a "little bit negative". The external member, revealed that he could see rates going lower than their 0.5% record low, however, he warned that the Bank needs to consider the implications of rates going too negative. Mr Vlieghe said: "Theoretically, I think interest rates could go a little bit negative. "There is only so far that they can go negative before you start worrying about the thing that central bankers have been worrying about all these years — which is 'not only am I not getting any interest paid on my money in the bank, it is now potentially going to charge me, in which case I won't keep my money in the bank, I'll just take it out and keep it at home'." Should that scenario occur, "it is almost certainly negative for the economy" as the whole banking model will be undermined. Mr Vlieghe's comments follow those made by governor Mark Carney earlier in the year, when he admitted he could see rates being cut from 0.5%.

Bank and Building Societies

Nothing this week.

Housing / Mortgage Market

Nationwide has revealed that property prices rose 4.9% in the year to April to leave the average house price at £202,436 up 0.2% on a monthly basis. Nationwide said: "While UK house prices edged up 0.2% during the month of April, the annual rate of house price growth moderated to 4.9% from 5.7% in March. "This slowdown returns the annual pace of house price growth to the fairly narrow range between 3 per cent and 5 per cent that had been prevailing since the summer of 2015. "It may be that the surge in house purchase activity resulting from the increase in stamp duty on second homes from 1 April provided a temporary boost to prices in March. "However, it is possible that the recent pattern of strong employment growth, rising real earnings, low borrowing costs and constrained supply will tilt the demand/supply balance in favour of sellers and exert upward pressure on price growth once again in the quarters ahead." Nationwide said April's price slowdown came hot in the heels after property sales in March hit a record high, as landlords rushed to beat the 3% increase in stamp duty. "It may be that the surge in house purchase activity resulting from the increase in stamp duty on second homes from 1 April provided a temporary boost to prices in March," said Nationwide's chief economist. "House purchase activity is likely to fall in the months ahead given the number of purchasers that brought forward transactions," said Mr Gardner. "The recovery thereafter may also be fairly gradual, especially in the BTL [Buy-To-Let] sector, where a wealth of other policy changes, such as the reduction in tax relief for landlords from 2017 are likely to exert an ongoing drag."

The RICS has said that demand for commercial property has slumped to a record low, claiming that international investors have been put off by the possibility of the UK's exit from the EU. The Rics survey indicated that demand from foreign investors for UK commercial property is now at its lowest level since it started keeping records three years ago. 38% of RICS members cited the EU referendum for the lack of interest. "There is no doubt that since the EU referendum became a certainty following the general election last May, we have seen a decline in interest from overseas investors in UK commercial property," said RICS's chief economist. "At least in the short-term, we know that international retailers and service providers are finding the UK market less attractive." The survey also revealed that 43% of surveyors say a UK exit from the EU would have a negative impact on the commercial property sector, while just 6% said it would be beneficial.

HMRC reported 165,400 transactions March, higher than the previous peak of 149,000 in January 2007.

The BBA has reported that March's lending by the 7 major banks reached an 8 year high as landlords looked to beat the 1st April stamp duty deadline. Gross lending in March was £17.1billion, a 64% year-on-year increase. Approvals were up 20% annually at 78,448 though this was a slight slip on February's 79,159.

Remortgaging was also up 25%, purchases by14%, whilst unsecured borrowing increased 6% indicative of ongoing low interest rates, & confidence in household finances. The BBA says: “A surge in buy-to-let and second home buying ahead of the new stamp duty surcharge in April led to a sharp rise in March’s gross mortgage borrowing as people brought transactions forward.” Industry analysts are now expecting a period of reflection as the Buy To Let sector gets used “to the new stamp duty status quo”, & are therefore predicting a quieter Q2. Many landlords will now be looking at new investment strategies, to cope not just with the increased stamp duty, but also the upcoming tax relief restrictions. Landlords are also looking at the options of moving to a limited company mortgages to mitigate some of the more costly changes. Analysts also feel that remortgaging is likely to remain popular, as existing borrowers continue to take advantage of record low rates while they can.

The Association of Residential Letting Agents (ARLA) has said that the supply of rental property fell by 4% in March, to stand at the lowest level since the start of 2015. Their Private Rental Sector (PRS) report also highlighted a fall in rental demand, with the average of 33 prospective tenants per ARLA branch an 11% fall from 37 in February, and also down on last March’s 36. ARLA has said that supply has been falling year-on-year & last year the average number of properties managed per branch was 192, whilst March 2016 this was down 12% to just 169 rental properties per branch. London however, ARLA branches had just 122 properties on average. Some 2/3rds of ARLA agents have said that current and prospective landlords intend to walk away from the sector following the new 3% Stamp Duty surcharge. The concern is that this could lead to a decrease in the supply of rental properties and a subsequent rise in rents. With rental supply already falling & rental costs rising last month for a third of tenants, 61% of ARLA members say rents will keep rising as a result of the tax changes. ARLA said: “We don’t expect falling supply to stop here – the recent Stamp Duty changes are very likely to cause supply to decrease even further, as landlords withdraw from the market. “Not only do our agents predict that rent costs will increase further, but rental homes may also face a decline in quality over time, as landlords struggle to keep up with maintenance costs alongside the higher Stamp Duty charges.”

The European Investment Bank (EIB) is to lend the UK £1billion for the construction of 20,000 social housing units. The deal has been agreed with the Housing Finance Corporation (THFC) to help combat the UK’s housing shortage. The 30-year EIB loan is to be matched by THFC and backed by a government guarantee. So far, over 70 housing associations have applied for a share of the funds, with many others being assessed in next few weeks. The EIB has called the loan the biggest ever for European social housing & housing associations say they expect the homes to be spread across the country.

UK

The ONS has said that tQ1’s GDP slowed to 0.4%, due mainly to a drop in manufacturing and construction output. Q1’s figure is a drop on Q4’s 0.6% but is in line with expectations. Annually growth was 2.1%. There was a sharp fall in construction output, down 0.9% in Q1, while industrial output, which includes manufacturing, declined by 0.4%. These were countered by the service sector, the biggest part of the economy, which grew by 0.6%. "Services continue to underpin the economy but other sectors have shown falling output this quarter," said the ONS chief economist. The ONS admitted it had no evidence for or against the slowdown being linked to the EU referendum on 23rd June, though some economists do think that fears over the potentially negative impact of a ‘Brexit’ is only partly to blame for the slowdown. Pantheon Macroeconomics said the UK's economy had been steadily losing pace since 2014, & the boost to the economy from higher household spending & rapid employment growth "had run its course". "Concerns about Brexit likely played a role in the first quarter slowdown and they probably will take a greater toll on GDP growth in the second quarter. But the downward trend in GDP growth since 2014 suggests that the EU referendum cannot be blamed for all of the economy's ills," he added. Capital Economics said they expected the slowdown to be temporary. "Many of the factors likely to be to blame for the first quarter's weakness should prove short-lived. We would not be surprised if growth were to subsequently accelerate in the second half of the year, putting the economy back on track."

The Organisation for Economic Co-operation and Development (OECD) has added it's two pence worth into the Brexit debate. The OECD says a Brexit will lead to the average UK citizen losing out on the equivalent of a month's pay by the end of the decade. The OECD said "Brexit is like a tax" on each UK working adult, equivalent to losing a month's pay "by 2020 but continuing to 2030." "There is a consistent loss, which is also what other researchers have found, this is why we are saying Brexit is a tax and will continue to be paid by Britons over time." "Why are we spending so much time, so much effort, so much talent in trying to find ways to compensate for a bad decision, when you don't actually have to take the bad decision," the OECD added. There is absolutely no reason why the UK would get a sweeter trade deal than it already has, no reason why it would get a sweeter investment deal, no reason why it would get a sweeter immigration deal, there is no kind of deal than can go better by yourselves than with the company of the Europeans". Some of the figures used estimates that by 2020 UK GDP could be more than 3% down on what it would have been if the UK were to stay in the EU, or the equivalent of £2,200 per household at today's prices. Their "central scenario", claims that by 2030 the loss of GDP could rise to more than 5% - a loss of £3,200 per household, while a more pessimistic scenario, claims the costs of leaving would be even higher, rising to £5,000 per household. "A UK exit would be a major negative shock to the UK economy, with economic fallout in the rest of the OECD, particularly other European countries," the OECD said.

The CBI said that retail sales fell at the sharpest rate in more than four years in April after cold weather turned shoppers away from new spring and summer clothes. Department stores and clothes retailers reported the biggest fall in sales. "Cold weather put a chill in sales of spring and summer ranges with a reported dip in retail sales in the year to April, but with the near-term outlook for household spending holding up the sector expects a modest rise in sales next month," said the CBI.

Europe

The head of the EU has rejected Greece's request for an emergency meeting to try & end an impasse over the country's bailout programme. The EU's Council President said the group's finance ministers needed to resume talks themselves within days. Greece faces a looming debt payment, but has been unable to unlock the next loan instalment after clashing with its creditors over more reforms. The IMF and other European partners are demanding Greece implement further austerity measures, as they are looking to generate nearly €4billion in additional savings or contingency money in case Greece misses future budget targets. However, the Greek government said it will not agree to any "additional actions" other than what it had already signed up to last summer. There are concerns that Greece may default on €3.5billion in debt payments due in July if an agreement isn't reached soon.

US

US economic growth has slowed to an annual pace of 0.5% during Q1. It marks a sharp decline from the 1.4% rate of growth in Q4 last year, & is the slowest pace in two years. The slowdown, was also bigger than expected & is being blamed on a fall in domestic demand alongside a strong dollar putting the brakes on exports. As consumers are buying less, so businesses are reluctant to order new stock. Consumer spending, accounts for more than 2/3rds of the US economy, increased at a rate of 1.9%, down from 2.4% in the previous quarter. Business investment fell by 5.9% - the biggest quarterly decline since the financial crisis in 2009, while oil & gas exploration fell by a record 86% as energy companies cut back on spending following the dramatic slide in oil prices. It's a double edged sword that while cheaper oil has given consumers more spare cash, it has also slashed the profits of businesses dependent on the oil industry. Analysts are expecting the economy to bounce back in Q2, however Markit said their surveys showed only a weak recovery. "Worryingly, the surveys indicate that the malaise affecting the US economy has extended into the second quarter, albeit with the pace of expansion picking up slightly to 0.8%. The surveys also show weakness spreading from manufacturing to services in recent months."

The Fed has kept interest rates between 0.25% and 0.5% in their latest meeting. The Fed said while conditions have improved, they're still waiting for inflation to reach 2%. The Fed's statement said it would "carefully monitor actual and expected progress toward its inflation goal" when deciding when to make the next rate rise. The news was what analysts had expected. The statement pointed to strengthening in the labour market & improved household spending, as positive signs. "Labour market conditions have improved further even as growth in economic activity appears to have slowed," the Fed said. The Fed also appeared less focused on global financial risks to the US economy & the latest update omitted the line "global economic and financial developments continue to pose risks," which analysts feel "leaves the door open to a June rate hike". Everyone will be closely watching what happens in financial markets over the next six weeks. The Fed added that low oil prices and poor exports early in the year had contributed to weak inflation. Also, although the housing sector has continued to strengthen, business investment and exports remained "soft".

The Rest Of The World

The Bank of Japan caught markets on the hop by deciding against any extra monetary easing. The BoJ kept interest rates unchanged despite increasing pressure to take further action. It introduced negative rates in January, however this failed to provide a much needed boost for the economy. New economic data also showed a slip back into deflation while industrial production expanded. Inflation is still far off the 2% target. "This shows that too much expectation of further easing had been priced in and the BOJ has surprised the market by taking no action," said one analyst. "It is probable that the central bank is temporarily running out of tools to stimulate the economy, or they need more time to observe and assess the impact of negative interest rates."

Markets, Swaps. Libor, Gold, Sterling

UK Swap Rates

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Wed 27th	0. 89	(same)	0.99	(-0.01)	1.18	(-0.02)	1.61	(-0.03)	1.87	(-0.03)
Tues 26th	0. 89	(+0.01)	1.00	(+0.03)	1.20	(+0.04)	1.64	(+0.05)	1.90	(+0.05)
Mon 25th	0. 88	(+0.01)	0.97	(same)	1.16	(+0.01)	1.59	(+0.01)	1.85	(+0.01)
Fri 22nd	0. 87	(same)	0.97	(+0.01)	1.15	(+0.02)	1.58	(+0.02)	1.84	(+0.02)
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)

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Wed 27th	0.51	(same)	0.59	(same)	0.75	(same)	1.03	(same)
Tues 26th	0.51	(same)	0.59	(same)	0.75	(same)	1.03	(+0.01)
Mon 25th	0.51	(same)	0.59	(same)	0.75	(same)	1.02	(same)
Fri 22nd	0.51	(same)	0.59	(same)	0.75	(+0.01)	1.02	(same)
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)

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Financial Markets – 22nd April – 29th April

Index	22/04/2016	This Week	% Change
FTSE 100	6,328.24	6,316.33	-0.18%
Dax	10,348.70	10,325.12	-0.23%
CAC 40	4,561.29	4,550.08	-0.24%

Index	22/04/2016	This Week	% Change
Dow Jones	17,982.52	18,010.08	+0.15%
S&P 500	2,091.48	2,096.03	+0.22%
Nikkei	17,572.49	16,666.05	-5.15%
Hang Seng	21,467.04	21,388.03	-0.37%
Shanghai Composite	2,959.24	2,945.59	-0.46%
Sydney	5,299.20	5,289.40	-0.18%

Gold

	Price	Change	%
Forex Gold Index $/oz	1256.60	+22.75	+1.84

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	1.28810	+0.01650	+1.29	1.43680	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.45690	+0.02370	+1.65	1.71520	1.40950