John Charcol
more than mortgages

28th August 2015

Market Report

Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 10th September)
- ECB - Maintained at to 0.05% - (next decision 3rd September)

Bank and Building Societies

Nothing this week

Housing / Mortgage Market

One of the potential side effects of the volatility within China's stock market over the past few recent weeks could be a postponing of the first Bank Rate, along with reductions in mortgage rates. The Chinese markets have been in uproar this week (24th – 28th) following a rapid (unsustainable) growth in share prices, which had rocketed 150% in the year to mid-July, creating a bubble that has finally burst. The lemming like share buying frenzy has meant that fears the market was unsustainable, have now materialized as nervous investors have been rushing to sell, with the result being share prices plunging and some Chinese companies having to suspend share dealings. The government has tried on numerous occasions to prop up the markets by devaluing the yuan, along with four reductions in interest rates. However, this did nothing to quell the panic, which eventually spread to economies across Europe, including the UK and also America. In the UK there's been constant speculation that the first rise in the bank rate since it fell to 0.5% in March 2009 was on the cards around the early part of 2016, and its likely the uncertainty generated on the back on the China's slowing growth, will delay this by a number of months. China's slowing growth will also have an impact on global GDP and therefore the UK by default. One economist commented that: "I think there are increasing signs that the Chinese growth story is going to slow down, it's almost certain that we're moving away from the world where Chinese growth was up above 10% a couple of years ago. "As soon as that expectation starts to sink in, commodity prices and oil prices around the world start to respond. Weaker commodity prices then have a knock-on effect to emerging markets, so it's really those wider ramifications that in the end are going to make the global growth outlook feel a bit softer," Most economists now agree that Bank of England Governor Mark Carney's prediction that a rate rise will occur 'around the turn of the year' is highly unlikely, but feel that the current low oil prices will probably only have a temporary negative influence on inflation. Economists say that MPC decisions take a long time to affect the economy and that basically the UK looks fairly sound at the moment, with wage growth picking up and a steady rise in GDP. Therefore it's likely that there will be a delay in a bank rate rise, rather than a lengthy postponement. Although a number of lenders have increased some rates over recent weeks, many of these changes are more to do with service levels and balancing the books than any genuine upwards pricing pressure. On the 30th June 2 Year, 5 Year 10 Year & 20 Year swap rates were 1.16%, 1.80%, 2.26% & 2.48% respectively. As of yesterday they were 1.04%, 1.64%, 2.03% & 2.23% respectively, however lenders are sure to be keeping a close eye on swaps going forward. "It's a new development so it will be watched closely to see how the markets react and how that feeds through to swap rates, which could affect any of our pricing decisions. There's not likely to be any knee-jerk reactions in light of what's happened over the past few days," said Halifax's chief economist. Some analysts claim there's room for lenders to further reduce the already low rates as the impact on the last few weeks of market turmoil in China's impacts on the wider economy. Analysts still think that in the next two years the bank rate is unlikely to higher than 2.5% which is backed up by the level that long-term mortgage rates are currently at. All-in-all when looking at mortgages it looks like low rates will be around for a long time yet.

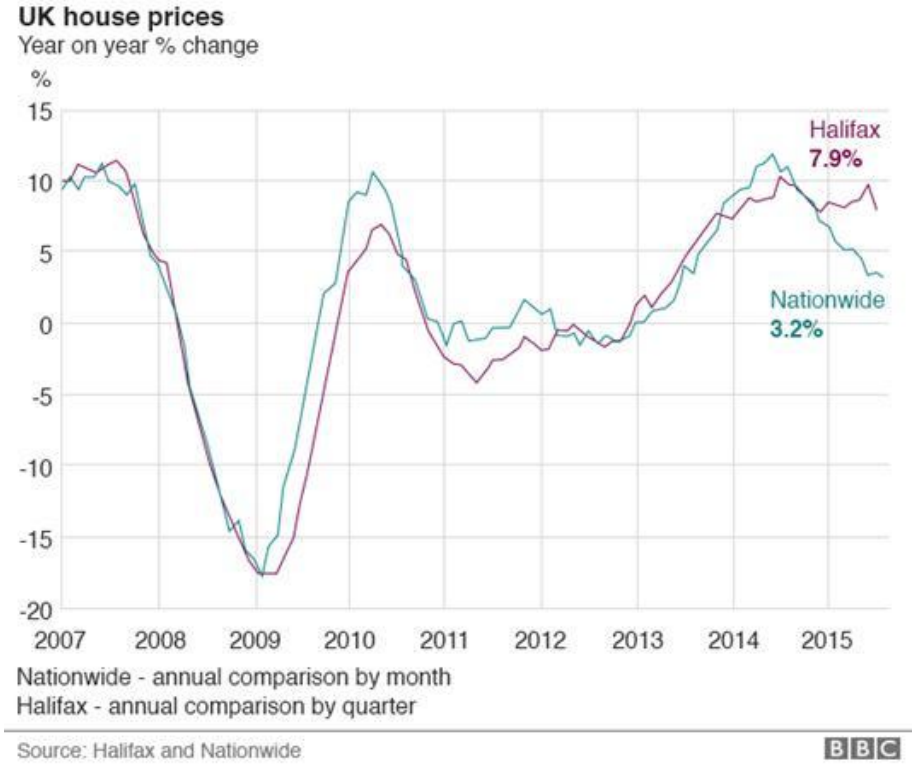
The BBA has reported a strong increase in the level of remortgaging in July, to reach a 4 year high. The 29% surge seems to be driven primarily by borrowers taking advantage of low fixed rates in the face of the upcoming first bank rate rise. The BBA's chief economist said: "There were concerns that new regulations had made applying for a mortgage more onerous. But remortgaging is still a straightforward process that can take even less time than Alastair Cook and his men took to beat Australia." The BBA covers the six main banking groups, and July's data showed there were 24,400 remortgage approvals, up 18,986 from July 2014. Purchase approvals were also up 11% from 41,316 to 46,033, while approvals for other secured lending increased 3.3%. Overall, approvals climbed 15.4% annually, from 67,096 to 77,451 with gross lending up 11.5% to £11.8billion. One industry expert said: "The massive surge in remortgaging reflects growing concern among borrowers about a potential interest rate rise for the first time in several years. Borrowers are locking into cheap fixed-rate mortgages before they disappear. "While fixes aren't quite as cheap as they have been, they are still almost ridiculously low when looked at from an historical perspective and are likely to remain competitive for the foreseeable future as lenders compete for business in the second half of the year."

The CML has also said although Greater London remortgage activity grew both quarter-on-quarter and year-on-year, first time buyer and house purchase activity was down on the same period in 2014. London itself is no longer the power behind the UK's housing growth, despite the quarter-on quarter rise in purchases, actual borrower numbers are down on previous years,

with affordability still an obstacle in the capital. First-time buyers in London borrowed 3.81 x income and an average loan of £224,994 in Q2, which was up 5% on Q1. The typical gross income of a first-time buyer was £58,685, again up 5% on Q1.

It's been reported that lenders are agreeing to help borrowers in arrears at a record proportion. Formal arrangements to suspend or reduce repayments represent 44% of mortgages in arrears according to Bank of England data, which is the highest level of forbearance since the Bank started measuring it in 2007. Overall the number of mortgage arrears cases has fallen from the peak of 81,469 in Q1 of 2009 to 28,749 in Q1 this year. The CML said: "Another fall in arrears and possessions is clearly welcome and shows that borrowers, lenders and money advisers are generally continuing to work well to contain payment problems where they arise, helped by an improving economy and low interest rates." They added that: "rates will rise at some stage, of course, and borrowers should be planning for that now." However, accountants Moore Stephens warned: "The fact that so many homeowners are struggling with their mortgage repayments when interest rates are still at historic lows does not bode well for households' ability to cope when rates do rise."

The Nationwide has said that property prices rose by 3.2% year-on-year this month, which is the weakest annual pace since June 2013. The figure also is marginal slowdown on July. Month on month, prices were up 0.3% in August, compared to 0.4% the month before, to leave the average property worth £195,279. Nationwide said that a big reason that property inflation has apparently weakened was due to the very rapid price growth in August 2014. "This month's data provides further evidence that annual house price growth may be stabilising close to the pace of earnings growth, which has historically been around 4%," said Nationwide's chief economist. "Clearly house price trends are determined by a wide range of factors, but labour market developments are amongst the most important," he added. With demand for homes rising, new home construction needs to increase to keep houses affordable, he said. Nationwide's figures are less bullish than their rivals Halifax who claimed that property prices were up 7.9% a year, however they both use different "mix adjustments" in their methodology, involving different emphasis on property sizes, to account for the fact that more small or large properties may be sold in any one month.



The Land Registry has reported that the number of homes being sold in England and Wales has fallen significantly, with 65,619 transactions in May, a 15% drop on the same month in 2014. However, prices in some property hotspots are still rising by up to 13% a year, due to lack of supply. The number of homes being sold for more than £1million has also dropped sharply down by 21%. The Land Registry figures include cash sales, as well as properties bought with mortgages. Some property experts have welcomed what they see as a cooling of the market, with one commenting: "Normality has returned to the market, with

the panic that has driven it in the past no longer present," said Guy Meacock, head of the London office of buying agency Prime Purchase. It is more level and sensible, which is good news for buyers." However, reduction in the number of transactions will do nothing to lessen the pressure on house prices, with the RICS reporting that the number of homes for sale was at a record low, and that demand continued to far outstrip supply, with further price rises the obvious result. The Land Registry also said that prices in England and Wales rose by 4.6% in the year to July 2015 and has revealed some of the top property hotspots.

Property Hotspots: London commuter towns

	Monthly rise in July	Annual rise July 2015 v July 2014
Reading	0.5%	13.6%
Slough	2.2%	11.6%
Thurrock	2.3%	11.4%
Luton	2.0%	11.0%
Windsor and Maidenhead	0.6%	11.0%
Hertfordshire	1.1%	10.7%

source: Land Registry

Prices in Cambridgeshire and East Anglia jumped by 2.8% during July alone, with many London suburbs and commuter towns seeing double digit inflation. However, property prices in the north east continue to fall sharply, with Darlington down 5.4% over the year, and 2% in July alone. The largest price jump though, came in Hillingdon with a soaring 14.6% increase in the last year. In total, 15 outer London boroughs saw rises of more than 10%. In central London, there was more moderation, with Camden, up just 0.1%., while Hammersmith and Fulham saw a 0.9% rise, with the changes to stamp duty making it more expensive to buy any house worth more than £937,500. Land Registry said that between May 2014 and May 2015, there were 26% fewer homes sold in London that were worth more than £1million.

A landlords petition to reverse the planned buy-to-let tax relief changes has now passed 21,000 signatures. Landlords claim they have been unfairly targeted by the changes, which will restrict the tax relief they can claim on property finance costs to the basic rate of income tax. The petition says: “We operate as sole traders and incur costs in the course of running our business. The planned restriction will unfairly target us by preventing us from offsetting costs in the same manner as other sole traders. We ask that the planned restriction be reconsidered as it has unfair implications.” The petition needs 100,000 signatures before it can be considered for debate in parliament, despite the Government claiming that just 18% of individual landlords will pay more as a result of the new measure. A spokesman said: “Landlords are currently able to offset their mortgage interest and other finance costs against their property income, reducing their tax liability. This relief is not available for ordinary homebuyers and not available to those investing in other assets such as shares.”

UK

The ONS has revealed that Q2’s GDP is unrevised at 0.7%. The initial figure released in July was boosted by a sharp rise in oil and gas production, however the figure is still higher than the 0.4% growth in Q1. Net trade boosted GDP by 1% in Q2 which is the biggest contribution from trade in four years, mainly thanks to a jump in exports. Economists are worried that the boost to trade might be temporary, due to the persistent strength of sterling, which is making British goods more expensive abroad, plus the turmoil in China’s financial markets has also increased uncertainty about the global outlook. Business investment rose 2.9% compared to Q1, the highest figure in a year. Capital Economics, said the figure "put paid to the idea that uncertainty about the general election would weigh on capital expenditure". Although household spending also increased by 0.7%, this was lower than the 0.9% rise in Q1, but low inflation, low interest rates, plus a strong pound have helped to keep consumer sentiment buoyant. "With growth in households' real incomes set to remain supported by low inflation, building wage growth and strong job creation, we continue to think that the economic recovery will sustain its current pace in the second half of 2015," they added.

Europe

Nothing this week.

US

The Commerce Dept has said that the US economy grew by far more than had been thought in Q2. The economy grew by an annualised rate of 3.7%, up from the first estimate of 2.3%. However, Q1’s GDP of 0.6% was not revised. The revision was helped by greater corporate investment than previously estimated, with strong consumer and government spending, along with higher

exports. Inventories were also higher than initially estimated. The revision had been expected, though not by as much as it was. "A healthy upwards revision to US GDP should act as a much needed soothing balm for investors after the turbulence of this week," said one analyst. The GDP figures are being watched closely by those looking for clues as to when US interest rates may rise, with many analysts betting on September as the month to bet on, however that was before all the trouble in China. Although the unexpectedly strong GDP figures will encourage some investors that an early rate rise may be back on the table, next month remains unlikely. "Despite the good GDP numbers that we saw today, September largely seems off the table because of the turmoil that we've seen in the past week," said one economist.

A member of the Fed has said that a rate rise in September now "seems less compelling" than it was a few weeks ago. New York Fed president William Dudley said economic turmoil in China had made the case for a rate rise harder to make. "The slowdown in China could lead... to a slower global growth rate and less demand for the US economy," he said. The minutes of the Fed's meeting on 28-29 July showed that policymakers thought then that conditions for a US rate rise "were approaching", however the turmoil in China's stock markets and the, so-far, limited impact of China's efforts to calm things down, has increased fears of a greater-than-expected slowdown in the world's second largest economy. That in turn could drag down growth globally, and there have been calls from some economists for the US to now put back any interest rate rises. However, despite his misgivings Mr Dudley has left the door partly open to the possibility of a rate hike in September. He said the case for a rise "could become more compelling by the time of the meeting as we get additional information on how the US economy is performing and... international financial market developments, all of which are important to shaping the US economic outlook".

The Rest Of The World

A tumultuous week for Chinese shares draws to a close after massive losses earlier rocked markets around the globe. The Shanghai Composite had recovered some of its losses to stand at 3,232.35. The severe losses on the Chinese market over the past weeks has caused volatility around the globe as investors concerns increased over the state of the worlds second largest economy. Even another 0.25% cut in rates by the country's central bank, had initially failed to calm Chine's market. There have been worries for some months about China's slowing economic growth with a constant trickle of poor economic data, the latest of which suggested that factory activity shrank in August at its fastest pace in more than 6 years. Analysts are that the tentative share market rebound indicates fears over China's woes may have somewhat eased. One Chinese billionaire Wang Jianlin, has described the country's GDP targets as "unrealistic" and said that his country needed "to drop the fantasy of keeping a high growth rate of 7% or 8%", and to focus on "sustainable and safe" growth, even this meant GDP of "6% or even 5%".

Japan's inflation has returned to zero, fuelling speculation that the central bank would launch a fresh round of stimulus.

Markets, Swaps. Libor, Gold, Sterling

UK Swap Rates

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Thurs 27th	1.04	(same)	1.26	(same)	1.64	(+0.02)	2.03	(+0.04)	2.23	(+0.05)
Wed 26th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tues 25th	1.04	(+0.02)	1.26	(+0.03)	1.62	(+0.07)	1.99	(+0.08)	2.18	(+0.11)
Mon 24th	1.02	(-0.01)	1.23	(-0.01)	1.55	(same)	1.91	(+0.03)	2.07	(+0.03)
Fri 21st	1.03	(-0.03)	1.24	(-0.04)	1.55	(-0.05)	1.88	(-0.07)	2.07	(-0.06)
Thurs 20th	1.06	(-0.03)	1.28	(-0.03)	1.60	(-0.04)	1.95	(-0.06)	2.13	(-0.07)
Wed 19th	1.09	(-0.02)	1.31	(-0.03)	1.64	(-0.04)	2.01	(-0.04)	2.20	(-0.03)
Tues 18th	1.11	(+0.03)	1.34	(+0.04)	1.68	(+0.05)	2.05	(+0.05)	2.23	(+0.04)
Mon 17th	1.08	(-0.03)	1.30	(-0.04)	1.63	(-0.04)	2.00	(-0.04)	2.19	(-0.03)
Fri 14th	1.11	(+0.01)	1.34	(+0.01)	1.67	(+0.01)	2.04	(+0.02)	2.22	(+0.01)

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UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 27th	0.51	(same)	0.59	(same)	0.75	(same)	1.05	(same)
Wed 26th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tues 25th	0.51	(same)	0.59	(+0.01)	0.75	(same)	1.05	(-0.01)
Mon 24th	0.51	(same)	0.58	(-0.01)	0.75	(same)	1.06	(same)
Fri 21st	0.51	(same)	0.58	(-0.01)	0.75	(same)	1.06	(same)
Thurs 20th	0.51	(same)	0.59	(same)	0.75	(same)	1.06	(same)
Wed 19th	0.51	(same)	0.59	(same)	0.75	(same)	1.06	(same)
Tues 18th	0.51	(same)	0.59	(+0.01)	0.75	(same)	1.06	(same)
Mon 17th	0.51	(same)	0.58	(same)	0.75	(same)	1.06	(same)
Fri 14th	0.51	(same)	0.58	(-0.01)	0.75	(same)	1.06	(+0.01)

Financial Markets – 24th August – 28th August

Index	24/08/2015	This Week	% Change
FTSE 100	6,043.93	6,221.55	+2.94%
Dax	9,838.86	10,266.79	+4.34%
CAC 40	4,515.14	4,661.22	+3.24%

Index	24/08/2015	This Week	% Change
Dow Jones	16,459.75	16,610.00	+0.91%
S&P 500	1,970.89	1,986.23	+0.78%
Nikkei	18,540.68	19,136.32	+3.21%
Hang Seng	21,351.53	21,612.39	+1.22%
Shanghai Composite	3,507.74	3,232.35	-7.85%
Sydney	5,014.20	5,274.70	+5.19%

Gold

	Price	Change	%
Forex Gold Index $/oz	1135.00	-21.50	-1.86

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	1.36860	-0.00020	-0.02	1.43680	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.53650	-0.02950	-1.88	1.71520	1.44550