29th May 2015

Market Report

Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 4th June)
- ECB - Maintained at to 0.05% - (next decision 4th June)

Bank and Building Societies

Nothing this week

Housing / Mortgage Market

The ONS has reported that the property prices increased by 9.6% in the year to March, to leave the cost of the average home at £273,000. Once again the poor levels of supply are being blamed for the rise at a time when activity was expected to have been curtailed by the election campaign. The annual rate of increase is up from the 7.4% recorded in February, and comes against a background of generally flat consumer prices. Scotland grew strongly with a 14.6% increase, the fastest pace since 2007 with the new Land and Buildings Transaction Tax thought to have had a positive impact. Once again there were also double-digit percentage annual price rises in the East of England (11.4%), London (11.2%) and the South East (11.2%).

UK	England	N.Ireland	Scotland	Wales
9.6%	9.4%	7.5%	14.6%	5.7%

London	East	S.East	E.Mids	S.West	W.Mids	N.West	N.East	Yorks & Hmbr
11.2%	11.4%	11.2%	7.2%	6.2%	7.3%	6.8%	4.9%	4.4%

The Building Societies Association (BSA) has revealed that the UK's building societies are eating into the banks' share of the mortgage market, and are now responsible for nearly a third of all mortgage lending. Mutuals lent £12.7billion to borrowers in Q1, against £12billion in Q1 of 2014, to give them a market share of 28.5%, which is an increase on their 25.9% for the same period, and up on the 26% for Q4 2014. Although the actual value was up, the number of loans was down 1.2% from 92,607 to 91,489 over the same period. The BSA says: "Lending by building societies has been strong. Without the contribution of this section of the market the stock of mortgage loans across the UK would have shrunk in the first three months of the year. Societies hold a 20 per cent share of mortgage balances, but have had a much greater share of the flow of new lending for some time. In the first quarter they delivered 29 per cent of all new mortgages. This is partly because of competitive products and partly due to the more personal approach they take to underwriting. The trend looks set to continue in Q2, as around a third of mortgage approvals in Q1 were from building societies."

The CML has said that mortgage lending in London fell in Q1 as both first-time buyer and home mover numbers were down on the previous quarter. The number of first time buyers fell compared to both Q4 and Q1 2014. Q1 of this year saw London's first time buyers borrow £2.4billion, equating to 10,100 loans which was a drop of 16% both in value and number of loans on Q4 of 2014. Affordability also slightly worsened for first time buyers in Q1 as borrowers typically took 3.86 x their gross income, up from the 3.84 x multiple in Q4 last year, and higher than the UK average of 3.37x. However the average loan size for a first time buyer fell from £216,000 in Q4 to £213,750 in Q1 2015. Typically the gross income for a first time buyer £55,687 in Q1 compared to £56,333 in Q4 2014. The CML also said that fewer Londoners moved home in Q1 with 7,200 home mover loans advanced, worth £2.5billion, which was down 18% by volume and 15% by value on Q4. Year-on-year comparisons showed a decrease of 18% volume and 11% value. Borrowers moving home on average borrowed 3.7 x their gross income in Q1 against 3.64 x in Q4 and 3.04 x for the UK overall. The average home mover loan size was up from £276,999 in Q4 to £293,250 in Q1. However, remortgages actually increased in Q1 with 10,800 loans worth £2.9billion, which was up 2% volume and 8% value on Q4 of 2014. Homeowner purchase in Greater London decreased in the same period down 17% to 17,300 loans compared to Q4 and a year-on-year drop of 16% on Q1 of 2014. One industry commentator said: "The usual furious flow of mortgage lending was interrupted in the first three months of this year, as it calmed down from the heady heights of 2014, and the general election loomed. But cheaper mortgage rates are now making waves in the market, and with the wealth of products now available, we can expect this to ripple out into a stronger summer of lending. As the Queen's speech stamps a seal of approval on the new government, there is a new wind in the sails of buyers – propelled by political certainty, greater choice of homes on the market, and incentives like reduced stamp duty and Help to Buy support schemes at the lower rungs of the ladder."

The BBA has approved more mortgages in April than any time since March 2014 with the total number of loans up 2.8% year-on-on-year. They said that 70,310 mortgages were approved last month, compared to 68,422 in April 2014. The actual number of approvals for home purchase increased 3% from 40,850 to 42,116. Remortgage approvals increased 5.6%, from 20,063 to 21,189, over the period, while approvals for other loans including further borrowing fell slightly, from 7,509 to 7,005. Approvals were also up 7% in April from March to 42,116. However, while approvals were up year-on-year in April, gross lending was down 13% from £11.9billion to £10.5billion. One industry expert said: "Today's data shows we are witnessing a resurgence in mortgage lending by the major banks with approvals hitting a 13 month high in April. After a slow start to 2015, loan approvals are now at their highest since the Mortgage Market Review took effect and have risen for three successive months. It is a sure sign for borrowers that there is life left on the high street despite growing competition from smaller building societies and specialist lenders. The BBA's data suggests that the impact of the build-up to the general election on market activity was greatly overstated. The combination of record mortgage product numbers and extremely favorable pricing has proved more than enough to sustain demand regardless of political uncertainty. The stability of a majority government should also provide a solid base for the market to progress."

A new survey by Experian has shown that almost half (45%) of those who planned to buy a property since the introduction of MMR have failed to do so. Some 25% of people surveyed also claimed that the MMR impacted negatively on their ability to buy a property, while a further 37% said that the changes made them feel less in control of securing a mortgage. Worryingly, among those who were unable to buy since the introduction of the MMR, 46% have never checked their credit report, and so have no real indication of how a lender might view their ability to repay a mortgage. Also, 62% weren't aware that lenders may require bigger deposits, with 23% actually believing they could apply for mortgages with smaller deposits than before. Even more worrying are the 15% who mistakenly believe that lenders have now relaxed their lending criteria as a result of the MMR.
In addition, of those who were unable to buy in the last year:

- 13% don't know how much money they have left over at the end of the month;
- 18% don't even know what monthly repayments they can afford;
- 14% did not have a big enough deposit for the property they wanted;
- 12% were unable to secure the size of mortgage they needed.

Staggeringly, out of those who applied for a mortgage but were turned down, 11% didn't know why or hadn't asked the lender why the application was declined, placing them at a significant disadvantage of improving their chances of being accepted in the future. One analyst said: "We're now one year on from the MMR and it seems many people remain stuck in a bit of a muddle. More needs to be done in 2016 to encourage personal financial planning and properly support aspiring home buyers, so that all buyers fully understand the rules of the game – and stand the best chance of securing a property they can afford."

A report by Kent Reliance has claimed that the private rented sector (PRS) is expected to grow by 700,000 households to 5.5 million by 2020, which will account for 20% of the total housing stock. The report added that nearly 150,000 new households were added to the PRS in the year to March, which puts the sector at 18% of all housing stock. It also said that in the past 12 months, the PRS accounted for 77.4% of all new households created. Over the past year the value of PRS property rose 11%, to £990.7billion, with London accounting for most of this, at £406.5billion, followed by the South East at £147.6billion. The average rent has increased annually by 3.9% to £832 in Q1, with landlords now receiving £111.5billion in gross annual returns (£67.2billion in capital gains and £44.3billion in rents). The lender said: "Buy-to-let has come of age, moving from a niche asset class to one big enough to rival the stock market. Landlords are seeing the benefit of a structural change in Britain's housing market, with tenant demand ever strengthening. Yes, house prices are showing signs of steadying somewhat, but growth remains brisk. Long-term price inflation is not in danger, given the gaping chasm between growing demand for housing and the number of houses being built each year. Combined with the dearth of high LTV lending to first-time buyers, this will continue to buoy demand for rental accommodation, as well as landlords' returns, and the sector will continue to expand."

UK

The ONS has confirmed that the economy grew 0.3% in Q1, with growth hit by rising imports and a service sector slowdown. The figure was a sharp slowdown from the 0.6% rate seen in the Q4 last year, with the services sector, which represents 75% of GDP, growing by just 0.4%, the weakest rate since 2012. Also, exports fell by 0.3% in Q1, while imports increased by 2.3%. The trade deficit widened from £9.6billion in Q4 to £13.2billion in Q1, as net trade knocked 0.9% off the GDP rate. The lack of an upwards revision surprised most analysts who had been expecting a revised figure up to 0.4%, however the Bank of England has said that it expects a revision up to 0.5% once final data is available. The British Chambers of Commerce, said the GDP figure "understates the true momentum in the economy," adding that: When you dive into the detail, there is a mixed picture," he said, as production and construction figures had been revised up, while the trade deficit had widened. One economist described unrevised headline growth figure of 0.3% as "a little disappointing," adding that "Going forward, we would expect some strengthening in performance, with the service sector regaining some traction."

The ONS has reported that retail sales rose by 1.2% in April, the strongest increase since November 2014. The increase was far stronger than expected, with analysts having forecast volumes to rise by 0.4%. Year-on-year, the figure was up as well with an annual increase 4.7% from the year before. The better-than-expected figures were put down to the warm weather, however rising levels of income and consumer confidence were also helping to fuel the rise in sales. One economist at PwC, said the figures suggested that consumers were continuing to drive the UK's economic recovery, helped by low inflation and rising wages, though he warned that fierce competition meant that retailers were struggling to increase the value of their sales. "Despite the strong headline volume growth figures, there are still tough times ahead on the High Street."

Europe

Nothing this week

US

The Bureau of Economic Analysis has significantly revised down it's Q1 GDP figure to show that the US economy actually shrank by 0.7%, compared to the same period last year. The new figure is a world away from the initial estimate of 0.2%. The previous calculation underestimated the rise in the volume of imported goods and overestimated capital investment by companies, it said. The harsh winter has been blamed for the second year running. for the fall in goods and services production in the US. Consumer spending, which accounts for about 70% of economic activity, slowed to 1.8% growth in Q1, slightly below the 1.9% growth initially estimated. The Bureau also highlighted the impact of weak exports and government spending, as the strong dollar pushed up imports and lowered exports. At current dollar prices, GDP slipped further from 0.1% growth to a 0.9% contraction.

The Rest Of The World

The IMF has said that China's currency "is no longer undervalued", which will ease US claims that the country has manipulated the value of the yuan to boost its exports. The IMF admitted that undervaluation has been a problem in the past, but is no longer the case. Substantial "appreciation over the past year has brought the exchange rate to a level that is no longer undervalued", it says. The IMF says China should focus on creating full exchange rate flexibility so that the value of the yuan adjusts as the country grows. The IMF thinks that China should aim to achieve a floating exchange rate within the next two or three years. "Greater flexibility, with intervention limited to avoiding disorderly market conditions or excessive volatility, will also be key to prevent the exchange rate from moving away from equilibrium in the future."

India's economy grew 7.5% in Q1, higher than the previous quarter and above expectations. It also means the country has outpaced China for two out of the last three quarters. Analysts had been expecting growth around 7.3% for the quarter compared to a year earlier, however the country has adopted a new way of calculating growth, which some say distorts the real picture. The country's annual growth for the year 2014-15 was 7.3%. Despite the good growth figure, the government and businesses are hoping the central bank will move to cut lending rates again soon to give the economy a further boost. The new way of calculating GDP has baffled analysts since its release earlier this year. Capital Economics said: "The economy is not as strong as the GDP numbers might suggest. The numbers should not have any bearing on policies and both the central bank as well as the government should look at other activity indicators."

UK Swap Rates

Markets, Swaps. Libor, Gold, Sterling

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Thurs 28th	0.99	(-0.02)	1.21	(-0.04)	1.53	(-0.06)	1.93	(-0.06)	2.19	(-0.05)
Wed 27th	1.01	(same)	1.25	(same)	1.59	(+0.03)	1.99	(+0.03)	2.24	(+0.01)
Tues 26th	1.01	(-0.01)	1.25	(-0.02)	1.56	(-0.05)	1.96	(-0.07)	2.23	(-0.07)
Mon 25th	1.02	(same)	1.27	(same)	1.61	(same)	2.03	(+0.02)	2.30	(+0.02)
Fri 22nd	1.02	(-0.01)	1.27	(same)	1.61	(-0.01)	2.01	(-0.04)	2.28	(-0.04)
Thurs 21st	1.03	(+0.02)	1.27	(+0.02)	1.62	(+0.02)	2.05	(same)	2.32	(same)
Wed 20th	1.01	(+0.01)	1.25	(+0.01)	1.60	(same)	2.05	(+0.01)	2.32	(+0.02)
Tues 19th	1.00	(-0.01)	1.24	(-0.02)	1.60	(-0.02)	2.04	(-0.02)	2.30	(-0.03)
Mon 18th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fri 15th	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 28th	0.51	(-0.01)	0.57	(same)	0.71	(same)	1.00	(same)
Wed 27th	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)
Tues 26th	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)
Mon 25th	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)
Fri 22nd	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(same)
Thurs 21st	0.51	(same)	0.57	(same)	0.71	(same)	1.00	(+0.01)
Wed 20th	0.51	(+0.01)	0.57	(same)	0.71	(same)	0.99	(same)
Tues 19th	0.50	(same)	0.57	(same)	0.71	(+0.01)	0.99	(-0.01)
Mon 18th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fri 15th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Financial Markets – 22nd May – 29th May

Index	22/05/2015	This Week	% Change
FTSE 100	7,041.37	7,037.34	-0.06%
Dax	11,820.56	11,524.17	-2.51%
CAC 40	5,145.13	5,074.18	-1.380%

Index	22/05/2015	This Week	% Change
Dow Jones	18,230.62	18,126.12	-0.57%
S&P 500	2,127.04	2,120.79	-0.29%
Nikkei	20,264.41	20,563.15	+1.47%
Hang Seng	27,992.83	27,424.19	-2.03%
Shanghai Composite	4,657.60	4,611.74	-0.98%
Sydney	5,668.20	5,774.90	+1.88%

Gold

	Price	Change	%
Forex Gold Index $/oz	1190.00	+7.00	+0.59

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	1.39210	-0.01220	-0.87	1.40430	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.52900	-0.02110	-1.36	1.71520	1.44550