30th October 2015

Market Report

Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 5th November)
- ECB - Maintained at to 0.05% - (next decision 5th November)

Bank and Building Societies

RBS's Q3 gross mortgage lending soared by 42% year-on-year from £5.2billion to £7.4billion. The mainly state owned group reported strong levels of mortgage activity in Q3, with a 66% increase year-on-year in applications from £6.2billion to £10.2billion, to give them a 15% new business market share of approvals. The group also said income earned from mortgage sales had fallen from £657million earned in Q3 2014 to £637million in Q3 this year, primarily due to competitive pricing, as borrowers on their Standard Variable Rate (SVR), continued to move away to lower rates. This meant the number of borrowers on SVR shrank from 23% last year, to 15% at the end of Q3 this year. RBS is continuing to reduce volatility by focusing on its key franchises; personal and business banking and commercial and private banking, and to that end confirmed that over 300 branches under its William & Glyn brand, has submitted its application for a banking license. RBS wants to complete the separation by next summer and plans to launch an Initial Public Offering (IPO) by the end of next year.

Santander's Q3 results have revealed that they lent 4.3% less to mortgage borrowers in the first nine months of the year than over the same period in 2014. The results showed lending of £19.6billion of mortgages in the nine months to the end of September, which was down from the £20.5billion in the first nine months of 2014. They said that: "Growth is expected to be in line with the market for the remainder of the year." The UK arm of the bank made a profit of £1billion in the period which is year-on-year increase of 14%. The bank also admitted that it is setting aside a further £43million for investment advice compensation after agreeing a revised redress scheme with the FCA. This sum is in addition to the £45million they set aside in February for misspelling investment advice, and is on the back of the £12.4million fine in March 2014 after an FCA investigation found "significant deficiencies" in the bank's suitability process. They also have a further £48million provision for PPI claims, which is likely to be increased once there is greater clarity on the implications of a recent Supreme Court ruling.

Lloyds Banking Group (LBG) mortgage lending was down t 10.2% in the in the first nine months of the year, compared to the same period in 2014. The part state owned bank lent £11.1billion in Q3, and £27.1billion as at the end of September, a drop from the £30.2billion on the previous year. The Q3 results showed its lending book grew 1% year-on-year, due to a "conscious decision to protect margin in a low growth market environment and competitive market". Also in Q3 the group set aside a further £500million to cover further PPI redress and £100million for misselling through its branches. Pre-tax profits climbed to 28% to £958million in Q3, up from £751million during the same period last year. The £100million charge relating to potential claims and redress for products sold through the branch network, brings the total provision for redress in the first nine months of this year to £535million. LBG's chief exec said: "These results, coupled with our simple, low risk, UK focused business model, underpin our confidence in the group's future prospects and our strategic direction."

Barclays Q3 results have revealed a fall in profits, plus £560million set aside for more customer refunds and litigation. Profits before tax not including those settlements dropped 10% to £1.43billion for Q3. Barclays said it had seen slow progress with its so-called non-core businesses, which it is selling. Losses for the package of businesses, which includes some investment bank assets and parts of the European retail banking operation, more than doubled to £337million. However, for the businesses being retained, including its UK High Street bank and Barclaycard, profits were up 1% to £1.76billion. Including the £560million hit, and other costs and gains considered to be one-offs, Q3's profit before tax fell to £861million from £1.22billion a year ago, with revenues falling to £6.1billion from £6.4billion.

Housing / Mortgage Market

Nationwide has said that house prices were up 3.9% in October from a year earlier. They said that monthly prices increased 0.6% compared to September, with the average property price at £196,807. They added that the annual pace of change had been "broadly consistent" with wage growth, however they warned that home building needs to keep pace with demand. Nationwide's chief economist, said that economic conditions had aided affordability levels. "Historically low interest rates have helped to offset the negative impact of rising house prices on affordability," he said. "Indeed, even though house prices are at an all-time high, the cost of servicing a typical mortgage is still close to the long-term average as a share of take-home pay."

The latest figures from the Bank Of England, showed purchase mortgage approvals down slightly in September. The total fell from 70,664 in August to 68,874 in September, but this was higher than the average of the previous six months of 66,900.

The ONS has also revealed that the cost of renting a home has increased much faster than general inflation, though not as fast as property prices. Private rental prices paid by tenants rose by 2.7% in the year to September, which included a 2.8% rise in England, a 1.6% increase in Scotland and a 0.5% rise in Wales. Rental prices increased in all the English regions over the year, with tenants seeing the fastest rise of 4.1% in London.

The latest figures from Land Registry have shown that the average price of a home in London has almost reached the half million mark in September at £499,997. Property prices across England and Wales rose by 5.3% in the year to the end of September, with the average home standing at £186,553. The data also showed that London prices went up fastest over the period at 9.6%, and up 1.8% on a monthly basis. However, at the other end, prices in the North East fell by 0.3% from a year earlier, which lowered the average price in the region to £99,559. That means the house price gap across England and Wales is £400,438. John Eastgate at OneSavings Bank commented: "House prices are bouncing back from what seemed like a moderating market, with annual price inflation reaching a six month high in September. "Year-on-year price increases had slowed over the summer, so these numbers reverse that trend and as long as the scales remain heavily tipped toward demand over supply, continued growth is fairly certain in the long term. Little respite then for first-time buyers, who struggle with the need to match higher house prices with larger deposits. Strong mortgage lending figures have so far been supported by year-on-year growth in remortgage activity, so this acceleration in house price inflation may yet further impact on the purchase market."

The BBA has reported that September's figures showed remortgage lending up a staggering 40% year-on-year, with purchases lagging behind up 14%. The BBA said that while good deals were still available to first-time buyers, existing borrowers are piling into the lower fixed rates currently available to control their mortgage costs. Gross mortgage borrowing in August was £12.1billion, up 17% on a year ago, though lending to companies fell in September and remains subdued. The BBA, acknowledged the rising mortgage figures, saying: "Credit card purchases were 6% higher last month than a year ago. Buoyant consumer confidence and rising wages may well be playing a role here." One industry commentator asked the question: "With Mark Carney, governor of the Bank of England, now suggesting that rates rises are a 'possibility not a certainty', it remains to be seen whether borrowers will lose the urge to remortgage." We know that lenders have plenty of funds to lend, and therefore in the last few months of the year, will we see some even lower deals as banks look to make up any shortfalls in their targets.

The National Association of Estate Agents, has said that sales to first time buyers accounted for 29% of total sales in September, which is up 9% on last month. Also the number of buyers looking for properties dropped last month.

The Centre for Economics and Business Research (CEBR) has said that although mortgage activity has picked up this year, the lack of property for sale will continue to push up house prices. They are predicting that property prices will rise 5.6% this year, which is up on their previous estimate of 4.7%, with the poor level of supply being blamed. The CEBR said price gaps between different property types were widening, making it harder for people to climb up the property ladder even once they've managed to get on it. They said that in London, someone wanting to move from a flat to a terraced property would need to find an extra £176,000, and they have urged the government to extend its current housebuilding programme, claiming that prices would continue to rise - by 3.5% in 2016, and by around 4% in the four years that followed.

Swiss bank, UBS has claimed that the London housing market has formed the world's biggest house price bubble, saying the ratios of property prices to incomes, and property prices to rents, have reached all-time highs. In their Global Real Estate Bubble Index, any city scoring more than 1.5 is at risk of a bubble, & London had the highest score, at 1.88, with Hong Kong second, scoring 1.67. The report also warned that London house prices have become more "decoupled" from household earnings than anywhere else in the world, adding that more than any other big city, the capital now faces the risk of a "substantial" price correction. However, crucially they were unable to predict when any such correction might occur. UBS further claimed that real house prices, adjusting for inflation, have soared by almost 40% in London since the beginning of 2013, making London one of the most expensive cities in the world. Other findings in the report included, London house prices are, in real terms, 6% above their 2007 peak, compared to a national drop in house prices of 18%. They also said that demand for London properties was largely driven by foreign investors, but that domestic buyers have also helped to boost prices, with the Help to Buy scheme stoking demand too. The bank also claimed that on past experience, a price correction of 30% usually occurs within three years of the index exceeding a score of 1.0.

UK

The ONS has said that Q3's GDP slowed, weighed down by the performance of the construction and manufacturing sectors. GDP grew by 0.5% in Q3 which is down from 0.7% in Q2. The figure was also below the 0.6% predicted by many analysts. Part of the slowdown was due to a 2.2% drop in the construction sector, the biggest fall in three years. The service sector, which represents the largest part of the economy, grew by 0.7%, however, manufacturing declined by 0.3%. "The slowdown is being led by the manufacturing sector, which is seeing a renewed recession as output has now fallen for three consecutive quarters, suffering a 0.3% decline in the three months to September," said Markit's chief economist, "Manufacturing output has so far fallen 0.9% this year. Producers are struggling as weak demand in many overseas markets, notably China and other emerging nations, is being exacerbated by the appreciation of sterling." "Overall, the picture of a steady recovery in the UK economy continues and we would now expect GDP growth of around 2.4% for the year as a whole," said the chief economist at PwC. According to a new poll, economists have now pushed back their average forecast for when the first bank rate rise will happen to Q2 next year. This is the first GDP estimate, and only uses half the data which will be used for the final estimate.

Europe

Eurostat has reported that inflation in the eurozone returned to zero in October, up from September's -0.1%. The inflation figure is an early, flash estimate, and so are not broken down by member state. They also said that the unemployment rate in the eurozone was 10.8% in September, down from August's 10.9%, whilst the rate for all 28 EU members was 9.3%, down from 9.4%. The eurozone rate is the lowest since January 2012 while the rate for the whole EU is the lowest since September 2009. Greece had the highest rate at 21.6%, while Germany had the lowest at 4.5%. Mario Draghi, president of the ECB, has already hinted that he might be prepared to extend the bank's QE programme given the still very low levels of eurozone inflation. "Although today's inflation and unemployment data for the eurozone revealed small improvements, they are still very weak by past standards, suggesting that the ECB cannot afford to delay increasing its policy support much longer," said Capital Economics.

US

The Dept of Commerce has said that GDP slowed sharply in Q3, at an annualised pace of 1.5%, down from a rate of 3.9% in Q2. The slowdown was partly due to companies running down stockpiles of goods in warehouses. The Fed described the economy as expanding at a "moderate" pace. Consumer spending remained fairly robust, up 0.8% in the quarter or by 3.2% annualised, which is a slight drop from the 3.6% seen in Q2. Although the low oil prices have hit US energy firms this year, lower fuel prices have been good news for consumer spending. "Inventory adjustment was a drag but final domestic demand is much stronger suggesting the fundamentals of the economy remain solid." Said one economist.

At the Fed's latest meeting, it was decided to keep interest rates unchanged at their record lows of 0% to 0.25%. The Fed said the US economy was still expanding at a moderate pace, & the decision was no surprise to the markets. In a statement, the Fed said it was continuing to watch the global economy and domestic labour market for signs of strength. "The Committee continues to see the risks to the outlook for economic activity and the labour market as nearly balanced, but is monitoring global economic and financial developments." The vote was a repeat of the previous meetings 9 -1. The Fed gave few hints about when it will raise rates, but if it sticks to previous expectations of a rise this year, then it must be at its last meeting in December.

The US Congress has reached a compromise budget deal with the White House to avert the prospect of a renewed government shutdown. If passed by both houses, the two-year deal will increase spending by $80billion. The government needed to raise its borrowing limit by 3rd November or risk defaulting on its debts. The Treasury Dept had already postponed two bond sales waiting for an agreement to be reached. Both Democrats and Republicans have been eager to reach a longer-term deal, and President Obama had said he would not sign any more short-term budget agreements The new agreement addresses two financing issues at once, raising the debt limit and increasing the budget.

The S&P/Case-Shiller U.S. National Home Price Index, which covers all nine U.S. census divisions, recorded a slightly higher year-over-year gain with a 4.7% annual increase in August, up from July's 4.6%. "Home prices continue to climb at a 4% to 5% annual rate across the country," said the Index Committee for S&P Dow Jones Indices. "Most other recent housing indicators also show strength." Housing starts topped an annual rate of 1.2 million units in the latest report with continuing strength in both single family homes and apartments. The National Association of Home Builders sentiment survey, reflecting current strength, reached the highest level since 2005, before the housing collapse. Sales of existing homes are running about 5.5 million units annually with inventories of about five months of sales. However, September new home sales took an unexpected and sharp drop as low inventories were cited as a possible cause.

The Rest Of The World

The Bank of Japan will keep its monetary easing policy steady, and also pushed back the bank's 2% inflation target by about six months. Also GDP forecasts for the year to March 2016 were cut from 1.7% to 1.2%. The BOJ's current stimulus package is designed to give a boost to the world's third-largest, but struggling, economy. Private consumption makes up some 60% of Japanese economic activity, but the country has struggled with deflation for more than 15 years. The stimulus packaged is designed to encourage lending, which in turn should see consumers spending more. However, a raft of domestic data showed core consumer inflation falling 0.1% in September from a year ago, household spending also down 0.4% year-on-year, while unemployment remains steady at 3.4% compared to August.

Markets, Swaps. Libor, Gold, Sterling

UK Swap Rates

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Thurs 29th	1.00	(+0.07)	1.18	(+0.09)	1.50	(+0.10)	1.94	(+0.11)	2.18	(+0.08)
Wed 28th	0.93	(+0.01)	1.09	(+0.01)	1.40	(+0.03)	1.83	(+0.03)	2.10	(+0.03)
Tues 27th	0.92	(-0.02)	1.08	(-0.04)	1.37	(-0.04)	1.80	(-0.05)	2.07	(-0.05)
Mon 26th	0.94	(-0.01)	1.12	(same)	1.41	(-0.03)	1.85	(-0.05)	2.12	(-0.05)
Fri 23rd	0.95	(+0.03)	1.12	(+0.03)	1.44	(+0.05)	1.90	(+0.07)	2.17	(+0.06)
Thurs 22nd	0.92	(-0.02)	1.09	(-0.01)	1.39	(-0.01)	1.83	(-0.01)	2.11	(-0.02)
Wed 21st	0.94	(-0.01)	1.10	(-0.03)	1.40	(-0.05)	1.84	(-0.06)	2.13	(-0.04)
Tues 20th	0.95	(+0.04)	1.13	(+0.01)	1.45	(+0.02)	1.90	(+0.03)	2.17	(+0.01)
Mon 19th	0.91	(-0.02)	1.12	(+0.03)	1.43	(+0.03)	1.87	(+0.03)	2.16	(+0.03)
Fri 16th	0.93	(+0.01)	1.09	(same)	1.40	(-0.01)	1.84	(+0.01)	2.13	(+0.02)

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 29th	0.51	(same)	0.58	(same)	0.74	(same)	1.02	(same)
Wed 28th	0.51	(same)	0.58	(same)	0.74	(same)	1.02	(-0.01)
Tues 27th	0.51	(same)	0.58	(same)	0.74	(same)	1.03	(+0.01)
Mon 26th	0.51	(same)	0.58	(same)	0.74	(same)	1.02	(same)
Fri 23rd	0.51	(same)	0.58	(same)	0.74	(-0.01)	1.02	(-0.01)
Thurs 22nd	0.51	(same)	0.58	(same)	0.75	(same)	1.03	(same)
Wed 21st	0.51	(same)	0.58	(same)	0.75	(same)	1.03	(same)
Tues 20th	0.51	(same)	0.58	(same)	0.75	(same)	1.03	(same)
Mon 19th	0.51	(same)	0.58	(same)	0.75	(same)	1.03	(same)
Fri 16th	0.51	(same)	0.58	(same)	0.75	(same)	1.03	(same)

JohnCharcol
more than mortgages

Financial Markets – 23rd October – 30th October

Index	30/10/2015	This Week	% Change
FTSE 100	6,452.97	6,349.17	-1.60%
Dax	10,781.50	10,811.93	+0.28%
CAC 40	4,919.39	4,878.70	-0.83%

Index	30/10/2015	This Week	% Change
Dow Jones	17,594.19	17,751.53	+0.89%
S&P 500	2,052.51	2,087.10	+1.68%
Nikkei	18,825.30	19,083.10	+1.37%
Hang Seng	23,151.94	22,640.04	-2.21%
Shanghai Composite	3,412.43	3,382.56	-0.87%
Sydney	5,388.10	5,288.60	-1.85%

Gold

	Price	Change	%
Forex Gold Index $/oz	1142.35	-29.20	-2.49

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	1.39930	+0.05170	+3.84	1.43680	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.54520	+0.00960	+0.62	1.71520	1.44550