## SECTOR

## Shropshire Council

Monthly Investment Analysis Review
September 2010


## Shropshire Council

## Monthly Economic Summary

## General Economy

The consumer price index for August was unchanged at 3.1\%, remaining stubbornly above the Bank of England's upper limit of 3\% and target of 2\%. On the month, CPI inflation jumped by $0.5 \%$ compared to July's figure of $-0.2 \% \mathrm{~m} / \mathrm{m}$. The unexpectedly high rate was boosted by strong rises in air fares, clothing and food. Core CPI inflation (excluding energy, food, alcohol and tobacco) came in at $2.8 \% \mathrm{y} / \mathrm{y}$ which is the highest annual core CPI inflation since June 2010. Final revised GDP figures for the quarter showed a rise of $1.2 \%$, unchanged from first estimates. A pick-up in the construction industry and strong household spending contributed to the rise in GDP. The annual rate of growth was also unrevised at $1.7 \%$, as expected. Construction output surged $9.5 \%$ during the second quarter, its fastest rate of expansion since 1963, whilst manufacturing grew by $0.3 \%$ on the month and services output was up by $0.6 \%$. The figures suggest Britain's economy bounced back strongly from its deepest recession since World War Two but most economists expect growth to slow sharply due to impending government spending cuts and weak overseas demand. UK retail sales suffered a surprise fall in August, the first drop since January, the Office for National Statistics (ONS) said. Sales fell $0.5 \%$ from July, suggesting that worries about tax rises and budget cuts are starting to hit consumers. UK jobless claims unexpectedly increased in August to 1.47 million which is the first increase since January, whilst the ILO unemployment rate held at $7.8 \%$ in the three months to July.

## Housing Market

The British Bankers' Association reported UK mortgage approvals fell $22.3 \%$ on the year in August to 31,767 , down from 34,219 in July, the lowest since April 2009 when the housing market hit a trough. Nationwide reported house prices notched up slightly in September, rising $0.1 \%$ after a fall of $0.8 \%$ in August, while the annual rate slowed to $3.1 \%$ from $3.9 \%$ previously. Contrary to expectations, Halifax reported a $0.2 \%$ rise in house prices on the month, leaving prices $4.6 \%$ up in the three months to August. The average house price now stands at $£ 167,953,9 \%$ higher than the trough in prices seen in April 2009.

## Currency

The cable opened at $\$ 1.54$ on a month, reached a low point in the middle of September at $\$ 1.53$ and ended the month at $\$ 1.57$. Sterling started the month at $€ 1.205$ and reached a peak of $€ 1.215$. There was additional volatility at the end of the month with Sterling hitting $€ 1.152$ against the Euro. The Euro started the month at $\$ 1.281$ against the dollar and ended the month at $\$ 1.363$.

## Forecast

Sector has left its interest rate forecast unchanged. The increase in risk of further quantitative easing in the UK and US (i.e. a further loosening of monetary policy rather than a tightening) has pushed our view on the first increase of Bank Rate to take place in Q3 2011.

| Bank Rate | Sep-10 | Dec-10 | Mar-11 | Jun-11 | Sep-11 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Sector | $0.50 \%$ | $0.50 \%$ | $0.50 \%$ | $0.50 \%$ | $0.75 \%$ |
| UBS | $0.50 \%$ | $0.50 \%$ | $0.75 \%$ | $1.00 \%$ | $1.50 \%$ |
| Capital Economics | $0.50 \%$ | $0.50 \%$ | $0.50 \%$ | $0.50 \%$ | $0.50 \%$ |

## Shropshire Council

## Current Investment List

| Borrower | Principal $(£)$ | Interest Rate | Start Date | Maturity Date |
| :--- | :--- | :--- | :--- | :--- |
| Natwest Instant Access | $3,540,000$ | $0.90 \%$ |  | Call |
| Natwest Instant Access | $7,500,000$ | $0.80 \%$ | Call |  |
| Lloyds TSB | $5,000,000$ | $1.82 \%$ | $15 / 12 / 2009$ | $15 / 12 / 2010$ |
| Lloyds TSB | $5,000,000$ | $1.82 \%$ | $05 / 02 / 2010$ | $04 / 02 / 2011$ |
| Lloyds TSB | $2,170,000$ | $1.80 \%$ | $03 / 06 / 2010$ | $02 / 06 / 2011$ |
| Lloyds TSB | $5,900,000$ | $2.10 \%$ | $15 / 07 / 2010$ | $14 / 07 / 2011$ |
| Clydesdale Bank | $2,500,000$ | $0.67 \%$ | $20 / 07 / 2010$ | $20 / 10 / 2010$ |
| Lloyds TSB | $1,390,000$ | $1.08 \%$ | $23 / 07 / 2010$ | $25 / 10 / 2010$ |
| Clydesdale Bank | $3,890,000$ | $0.67 \%$ | $29 / 07 / 2010$ | $29 / 10 / 2010$ |
| Clydesdale Bank | $3,610,000$ | $0.67 \%$ | $03 / 08 / 2010$ | $03 / 11 / 2010$ |
| Lloyds TSB | $2,000,000$ | $1.30 \%$ | $04 / 08 / 2010$ | $02 / 02 / 2011$ |
| Lloyds TSB | $2,410,000$ | $1.08 \%$ | $13 / 08 / 2010$ | $16 / 11 / 2010$ |
| Lloyds TSB | $2,180,000$ | $1.08 \%$ | $16 / 08 / 2010$ | $17 / 11 / 2010$ |
| Nationwide Building Society | $1,430,000$ | $0.54 \%$ | $31 / 08 / 2010$ | $29 / 10 / 2010$ |
| Lloyds TSB | $3,950,000$ | $1.10 \%$ | $01 / 09 / 2010$ | $02 / 12 / 2010$ |
| Nationwide Building Society | $2,000,000$ | $0.47 \%$ | $01 / 09 / 2010$ | $05 / 10 / 2010$ |
| Nationwide Building Society | $5,380,000$ | $0.65 \%$ | $02 / 09 / 2010$ | $02 / 12 / 2010$ |
| Barclays | $1,330,000$ | $0.40 \%$ | $06 / 09 / 2010$ | $06 / 10 / 2010$ |
| RBS | $1,050,000$ | $0.90 \%$ | $07 / 09 / 2010$ | $07 / 03 / 2011$ |
| Lancashire County Council | $2,200,000$ | $0.35 \%$ | $08 / 09 / 2010$ | $08 / 10 / 2010$ |
| Nationwide Building Society | $1,190,000$ | $0.65 \%$ | $08 / 09 / 2010$ | $08 / 12 / 2010$ |
| RBS | $1,300,000$ | $0.42 \%$ | $10 / 09 / 2010$ | $11 / 10 / 2010$ |
| RBS | $3,550,000$ | $0.45 \%$ | $14 / 09 / 2010$ | $20 / 10 / 2010$ |
| RBS | $4,080,000$ | $0.47 \%$ | $15 / 09 / 2010$ | $29 / 10 / 2010$ |
| Mid Suffolk District Council | 400,000 | $0.30 \%$ | $16 / 09 / 2010$ | $14 / 10 / 2010$ |
| Barclays | $2,830,000$ | $0.45 \%$ | $17 / 09 / 2010$ | $29 / 10 / 2010$ |
| Barclays | $3,000,000$ | $0.45 \%$ | $17 / 09 / 2010$ | $25 / 10 / 2010$ |
| RBS | 850,000 | $0.40 \%$ | $20 / 09 / 2010$ | $20 / 10 / 2010$ |
| Southampton City Council | $1,100,000$ | $0.32 \%$ | $21 / 09 / 2010$ | $21 / 10 / 2010$ |
| RBS | $2,190,000$ | $0.42 \%$ | $21 / 09 / 2010$ | $21 / 10 / 2010$ |

## Shropshire Council

## Current Investment List

| Borrower | Principal $(\boldsymbol{£})$ | Interest Rate | Start Date | Maturity Date |
| :--- | :--- | :--- | :--- | :--- |
| Blaenau Gwent Borough Council | $3,000,000$ | $0.30 \%$ | $22 / 09 / 2010$ | $25 / 10 / 2010$ |
| RBS | $1,980,000$ | $0.95 \%$ | $22 / 09 / 2010$ | $18 / 03 / 2011$ |
| Eastleigh Borough Council | $3,000,000$ | $0.30 \%$ | $22 / 09 / 2010$ | $21 / 10 / 2010$ |
| Lancashire County Council | $2,000,000$ | $0.36 \%$ | $27 / 09 / 2010$ | $26 / 10 / 2010$ |
| Lancashire County Council | $2,000,000$ | $0.36 \%$ | $27 / 09 / 2010$ | $27 / 10 / 2010$ |
| Nottingham City Council | $5,000,000$ | $0.45 \%$ | $28 / 09 / 2010$ | $12 / 10 / 2010$ |
| Mid Suffolk District Council | $1,000,000$ | $0.40 \%$ | $30 / 09 / 2010$ | $29 / 10 / 2010$ |
| Blaenau Gwent Borough Council | $1,175,000$ | $0.40 \%$ | $30 / 09 / 2010$ | $03 / 11 / 2010$ |

## Shropshire Council

## Portfolio Breakdown by Sector's Suggested Lending Criteria



|  |  |  | \% of Colour | Amount of | \% of Call |  |  |  |  | ing Calls/MMFs |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | \% of Portfolio | Amount | in Calls | Colour in Calls | in Portfolio | WARoR | WAM | WAM at Execution | WAM | WAM at Execution |
| Purple | 20.06\% | £20,875,000 | 0.00\% | £0 | 0.00\% | 0.36\% | 20 | 26 | 20 | 26 |
| Blue | 53.85\% | £56,040,000 | 19.70\% | £11,040,000 | 10.61\% | 1.16\% | 85 | 158 | 106 | 197 |
| Orange | 0.00\% | £0 | 0.00\% | £0 | 0.00\% | 0.00\% | 0 | 0 | 0 | 0 |
| Red | 6.88\% | £7,160,000 | 0.00\% | £0 | 0.00\% | 0.44\% | 23 | 38 | 23 | 38 |
| Green | 19.22\% | £20,000,000 | 0.00\% | £0 | 0.00\% | 0.63\% | 38 | 84 | 38 | 84 |
| No Colour | 0.00\% | £0 | 0.00\% | £0 | 0.00\% | 0.00\% | 0 | 0 | 0 | 0 |
|  | 100.00\% | £104,075,000 | 10.61\% | £11,040,000 | 10.61\% | 0.85\% | 59 | 109 | 66 | 122 |

## Shropshire Council

## Monthly Credit Rating Changes

FITCH

| Date | Update Number | Institution | Country | Rating Action |
| :---: | :---: | :---: | :---: | :---: |
| 03/09/2010 | 782 | EBS Building Society | Ireland | LT outlook revised to 'Evolving' from 'Positive' and ST downgraded to 'F3' from 'Fz' with outlook placed on 'Rating Watch Evolving', Individual rating upgraded to 'D/E' from 'F', Support rating at '2' placed on 'Rating Watch Negative' |
| 15/09/2010 | 790 | Anglo Irish Bank | Ireland | LT downgraded to 'BBB+' from 'A-' with outlook revised to 'Negative Watch', ST downgraded to 'F2' from 'F1' with outlook placed on 'Negative Watch', Support rating downgrade to '2' and placed on 'Negative Watch' |
| 24/09/2010 | 792 | Skandinaviska Enskilda Banken AB | Sweden | Individual Rating upgraded to ' B ' from ' $\mathrm{B} / \mathrm{C}$ ' |
| 29/09/2010 | 793 | Chiba Bank Ltd | Japan | LT outlook changed to 'Stable' from 'Negative' |
| 29/09/2010 | 794 | The Northern Trust Company | U.S.A | LT outlook changed to 'Stable' from 'Negative' |
| 30/09/2010 | 796 | Dexia Bank Belgium | Belgium | LT outlook 'Stable', Individual Rating downgraded to 'D' from 'C/D' and removed from 'Negative Watch' |
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## Shropshire Council

## Monthly Credit Rating Changes

MOODY'S

| Date | Update Number | Institution | Country | Rating Action |
| :---: | :---: | :---: | :---: | :---: |
| 07/09/2010 | 783 | Svenska Handelsbanken AB | Sweden | LT outlook 'Stable', BFSR outlook changed to 'Stable' from 'Negative' |
| 08/09/2010 | 784 | Bank of Ireland | Ireland | BFSR upgraded to 'D+' from 'D' with 'Stable' outlook |
| 09/09/2010 | 785 | Wells Fargo Bank N.A | U.S.A | BFSR 'C' placed under review for 'Possible Upgrade' |
| 13/09/2010 | 786 | Coventry Building Society | U.K | LT and BFSR outlook changed to 'Stable' from 'Negative' |
| 13/09/2010 | 787 | Lloyds TSB plc | U.K | BFSR 'C' outlook changed to 'Stable from 'Negative' |
| 13/09/2010 | 787 | Bank of Scotland plc | U.K | BFSR 'D+' outlook changed to 'Stable' from 'Negative' |
| 15/09/2010 | 789 | Royal Bank of Canada | Canada | LT and BFSR outlook placed on review for 'Possible Downgrade' and removed them from 'Negative' outlook |
| 30/09/2010 | 795 | Spain - Sovereign Rating | Spain | Sovereign rating downgraded to 'Aa1' from 'Aaa' with a 'Stable' outlook |
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Shropshire Council
Monthly Credit Rating Changes
S\&P

| Date | Update Number | Institution | Country | Rating Action |
| :---: | :---: | :---: | :---: | :---: |
| 14/09/2010 | 788 | Bank of freland | Ireland | LT outlook changed to 'Negative' from 'Stable' |
| 16/09/2010 | 791 | Landesbank Hessen- Thueringen Girozentrale (Helaba) | Cermany | LT Outlook changed to 'Stable' from 'Negative' |
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