

SECTOR

Appendix A

Shropshire Council

Monthly Investment Analysis Review

September 2011



Shropshire Council

Monthly Economic Summary

General Economy

UK manufacturing shrank at its fastest pace in over two years in August. The PMI Manufacturing Index fell from an upwardly revised 49.4 (July) to 49 (August), its weakest level since June 2009. More concerning was the data for the dominant service sector, slowing at its fastest pace for a decade. The PMI Services Index fell from 55.4 (July) to 51.1 (August). The Bank of England unsurprisingly maintained interest rates at 0.5%, which they have continued to do since March 2009. The Monetary Policy Committee decisively voted 9-0 in favour of no rate change and hinted at reintroducing Quantitative Easing, possibly as soon as October, to provide a boost to the stalling economy. Consumer Price Index (CPI) rose by 0.1% in August, with the annual rate at 4.5%. The main drivers behind the increase were record annual increases in clothing, footwear, furniture and the biggest rise in household bills in 2 years. Retail sales remained flat, with a 0.2% fall in August. High inflation and suppressed wage growth continues to force consumers to reduce spending. However, the Office of National Statistics stated the effects of the widespread riots in August, which caused some store closures, were difficult to quantify. Public Sector Net Borrowing (PSNB) hit a high for the month of August, £15.934bn, driven by higher government spending. However, previous month's borrowing was revised down, which meant borrowing for the year to date currently stands at £51.482bn. The International Monetary Fund (IMF) cut the UK growth forecast from 1.5% to 1.1%. The IMF stated the global economy is entering a new dangerous phase and recovery has considerably weakened, requiring strong policies to improve the outlook and reduce risk. The GfK Consumer Confidence Index increased for the first time in four months, rising to -30 from -31, as Britons become more optimistic about the economic outlook.

Housing Market

According to Halifax, house prices fell by 1.2% in August and were 2.6% lower in the three months to August compared to a year-ago. Halifax housing economist, Martin Ellis, said that low interest rates continue to support the market, but a gloomy economic outlook and pressures on household finances will constrain demand. However, he expects broad stability in both prices and activity over the coming months. Nationwide said that house prices rose just 0.1% in September, with prices down 0.3% compared to a year ago. Nationwide's chief economist, Robert Gardner, stated he expects the market to be relatively flat for the rest of the year, although downside risks have increased. The number of mortgages granted to homebuyers rose to 35,226 in August from the revised 33,734 in July, according to the British Bankers' Association. Figures from the Bank of England also showed that mortgage approvals had risen, hitting their highest level since December 2009 (52,410 in August, up from an upwardly revised 49,664 in July).

Currency

Sterling began the month at \$1.6184 against the pound and continued on a downward trend for most of the month until it reached a low of \$1.5345 (22/09/11), ending the month at \$1.562. The drivers behind the movement in the £/\$ was Quantitative Easing expectations intensifying and growing concerns about the European debt crisis leading to increased demand for the dollar (flight to safety). Sterling had a volatile month against the euro, rising from €1.1351 at that start of the month, to end the month at €1.1549, whilst peaking at €1.1628 (09/09/11). The European debt crisis and concerns about the UK's economy were the primary forces behind the fluctuations.

Forecast

Sector maintained its bank rate forecast, expecting a 0.25% increase in Q4 of 2012, followed by a further three consecutive 0.25% increases. Expecting the bank rate to be 1.5% in Q3 of 2013. UBS revised their forecast, expecting the base rate to remain at 0.5% throughout 2012. Capital Economics kept its forecast, believing the bank rate will remain unchanged to at least 2013.

Bank Rate	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Sector	0.50%	0.50%	0.50%	0.50%	0.75%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%

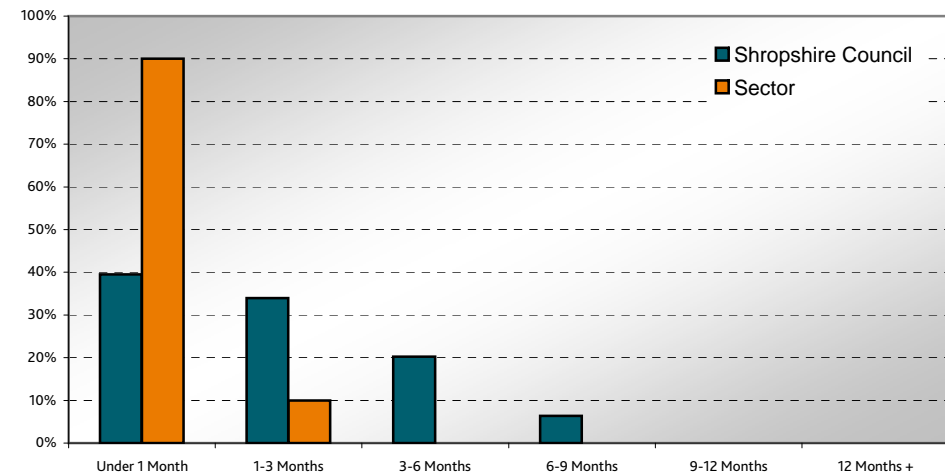
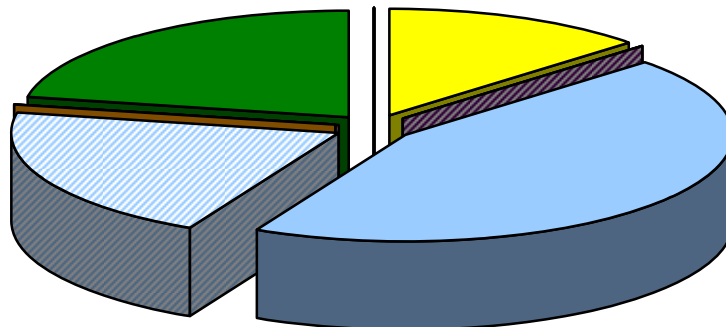
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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date
NatWest	16,250,000	1.00%		Call
Clydesdale Bank	2,520,000	0.50%	05/09/2011	05/10/2011
Southampton City Council	2,000,000	0.40%	06/09/2011	14/10/2011
Southampton City Council	2,000,000	0.40%	06/09/2011	20/10/2011
Birmingham City Council	5,000,000	0.40%	07/09/2011	20/10/2011
Barclays	2,080,000	0.63%	07/09/2011	31/10/2011
Lloyds TSB	4,320,000	1.25%	03/08/2011	04/11/2011
Clydesdale Bank	4,110,000	0.73%	04/08/2011	04/11/2011
Lloyds TSB	1,520,000	1.25%	08/08/2011	08/11/2011
Nationwide BS	5,960,000	0.76%	10/08/2011	11/11/2011
Lloyds TSB	5,000,000	2.00%	15/12/2010	14/12/2011
Nationwide BS	2,540,000	0.83%	15/09/2011	14/12/2011
Lloyds TSB	3,260,000	1.25%	21/09/2011	20/12/2011
Lloyds TSB	5,900,000	1.46%	14/07/2011	20/01/2012
RBS	5,000,000	1.00%	06/07/2011	31/01/2012
Lloyds TSB	5,000,000	2.00%	04/02/2011	03/02/2012
Lloyds TSB	5,000,000	2.08%	02/06/2011	31/05/2012
Blaenau Gwent BC	1,200,000	0.45%	26/09/2011	03/11/2011
Total Investments	£78,660,000	1.12%		

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Portfolio Breakdown by Sector's Suggested Lending Criteria



■ Yellow ■ Yellow Calls ■ Purple ■ Purple Calls ■ Blue ■ Blue Calls ■ Orange
■ Orange Calls ■ Red ■ Red Calls ■ Green ■ Green Calls ■ No Colour ■ NC Calls



Portfolios weighted average risk number = **3.4**

WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs	
									WAM	WAM at Execution
Yellow	12.97%	£10,200,000	0.00%	£0	0.00%	0.41%	16	37	16	37
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	65.15%	£51,250,000	31.71%	£16,250,000	20.66%	1.40%	78	165	114	242
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Green	21.88%	£17,210,000	0.00%	£0	0.00%	0.71%	38	78	38	78
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£78,660,000	20.66%	£16,250,000	20.66%	1.12%	61	130	77	163

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Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
16/09/2011	957	UBS AG	Switzerland	Individual and Viability Ratings placed on 'Negative Watch'
28/09/2011	964	Intesa Sanpaolo	Italy	LT Outlook changed to 'Negative' from 'Stable'
28/09/2011	964	Banca IMI SpA	Italy	LT Outlook changed to 'Negative' from 'Stable'
30/09/2011	966	Clydesdale Bank	U.K	LT Rating downgraded to 'A+' from 'AA-', ST Rating downgraded to 'F1' from 'F1+', Viability Rating downgraded to 'bbb' from 'bbb+'

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
14/09/2011	953	Societe Generale	France	LT Rating downgraded to 'Aa3' from 'Aa2' and removed from 'Under Review for Possible Downgrade' to 'Negative Outlook'
14/09/2011	954	Credit Agricole SA	France	LT Rating downgraded to 'Aa2' from 'Aa1', FSR downgraded to 'C' from 'C+'
15/09/2011	955	Calyon Corporate and Investment Bank	France	LT Rating Remain Under Review but Direction Uncertain
16/09/2011	956	UBS AG	Switzerland	LT placed 'Under Review for Possible Downgrade' from 'Negative Outlook', FSR placed 'Under Review for Possible Downgrade' from 'Negative Outlook'
16/09/2011	956	USB Limited	U.K	LT placed 'Under Review for Possible Downgrade' from 'Negative Outlook'
21/09/2011	960	Fortis Bank	Belgium	LT Rating placed 'Under Review for Possible Downgrade', FSR Outlook changed to 'Positive' from 'Negative'
22/09/2011	961	Bank of America NA	USA	LT Rating downgraded to 'A2' from 'Aa3' and Outlook changed to 'Negative' from 'Under Review for Possible Downgrade'
22/09/2011	961	Wells Fargo Bank NA	USA	LT Rating downgraded to 'Aa3' from 'Aa2' and Outlook changed to 'Negative' from 'Under Review for Possible Downgrade'
22/09/2011	963	Citibank NA	USA	LT Rating removed from 'Under Review for Possible Downgrade' and assigned 'Negative Outlook'
28/09/2011	965	Clydesdale Bank	U.K	LT Rating downgraded to 'A2' from 'A1' and remains 'Under Review for Possible Downgrade', ST Rating placed 'Under Review for Possible Downgrade'

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
16/09/2011	958	UBS AG	Switzerland	LT Rating placed on Negative Watch
16/09/2011	958	UBS Limited	U.K	LT Rating placed on Negative Watch
20/09/2011	959	Italy Sovereign Rating	Italy	Sovereign Rating downgraded to 'A' from 'A+'
22/09/2011	962	Intesa Sanpaolo	Italy	LT Rating downgraded to 'A' from 'A+'
22/09/2011	962	Banca IMI SpA	Italy	LT Rating downgraded to 'A' from 'A+'