CAPITA
Treasury solutions

Asset Services

Shropshire Council

Monthly Investment Analysis Review

September 2013

Shropshire Council

Monthly Economic Summary

General Economy

Following an ambivalent couple of months under the new Governor of the Bank of England (BoE), Mark Carney, it was expected that the Monetary Policy Committee (MPC) would edge away from making changes to their monetary policy. The nine member MPC opted against any changes to its asset purchase programme or Bank Rate in September. So far the BoE has purchased £375bn of gilts whilst Bank Rate remains at a record low of 0.5%. In contrast to previous meetings, no members, (including Paul Fisher and David Miles, who earlier made it clear they wanted to restart the central bank's asset purchase programme), put forward a persuasive case for further stimulus.

Carney made his intentions clear to keep Bank Rate unchanged until unemployment fell to 7.0%, subject to three caveats, including inflation staying under control. Data on unemployment in July and August produced unexpectedly sharp falls, including the ILO measure dipping to 7.7% in the three months ending in July from 7.8% previously. However, the central bank expects a slowdown in this rate such that the 7% target will not be met until mid 2016, delaying a Bank Rate rise until Q3 2016 at the earliest. Despite this, markets are pricing in Q4 2014 for the first rate hike. Good news for the Governor came as CPI inflation fell to 2.7% in August from 2.8%. This second consecutive fall in the figure was due to a slower rise in petrol prices compared to a year earlier, and discounting by retailers.

Positive economic data trends continued in UK as Britain's economy grew 0.7% in the second quarter of 2013, in line with economists' forecasts. The first quarter growth was also revised up to 0.4% growth from 0.3%. The breakdown of the growth highlighted the importance of export lead growth as well as strong performances in Britain's manufacturing and construction industries. British manufacturing forced the pace once more in August, unequivocally raising hopes that Britain has taken steps forward on the road to recovery. PMI manufacturing rose from 54.8 to 57.2 in August. This fifth consecutive month of expansion was driven by the fastest rise in both new orders and output since 1994. British construction activities followed suit, with PMI construction rising from 57.0 to 59.1 in August, its highest level in almost six years. Nevertheless this growth almost becomes a paradoxical situation for the Government. The Funding for Lending and Help to Buy schemes are helping facilitate buyers' access to mortgages but there is widespread concern that this is sowing the seeds for a bubble in house prices as new house construction is still a long way short of meeting the demand for new housing. This was supported by data from Halifax showing that British house prices rose 5.4% in the three months to August. However, this was a national average rate that obscured higher rises around London with near nonexistent increases elsewhere in the UK. Further positive data came from the PMI services, which rose from 60.2 to 60.5 in August, emphasising the view that British businesses are leading Europe's economic recovery. A hint of scepticism looms in the financial markets, while a strong recovery is likely to continue in the near future, it remains questionable as to how long the BoE can maintain the record low Bank Rate for. British retail sales which were unexpectedly weak in August with sales down 0.9% on the month. Previous figures were boosted by a heat wave and a series of British sporting successes. Although rising house prices have boosted the feel good factor and consumer confidence to spend, inflation continues to be higher than wage growth, which raises a question as to whether a recovery, heavily dependent on UK consumer spending, will be sustainable in the long term. The BoE has forecast that inflation will fall back to the 2% target in the next two years but wage growth for most of the work force has been lagging well behind even this target rate. However, increasing levels of employment (mainly due to growth in the labour force), will help to underpin total consumer spending power.

Housing Market

Mortgage lender Nationwide reported that house prices rose for a fifth consecutive month, as prices climbed 0.9% in August, compared to prices climbing a revised 0.7% in July. This growth is supported by the government's plan to improve availability of housing and the offering of incentives to free up credit. Britain's housing market continued to show signs of recovery in August, driven by strong gains in and around London, as the number of mortgages granted to homebuyers rose to 62,226 in August, up from 60,914 the previous month, the Bank of England data showed. Now that the 'Help to Buy scheme' has been brought forward it should be interesting to see the impact it has on the economy this coming month.

Forecast

Capita Asset Services has updated its interest rate forecast this month and are now expecting a first rate increase in Q3 2016 (previously Q4 2016). Whilst UBS kept their forecast unchanged, Capital Economics revised their forecast and do not expect the first increase in Bank Rate until Q1 2017.

Bank Rate	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Capita Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%

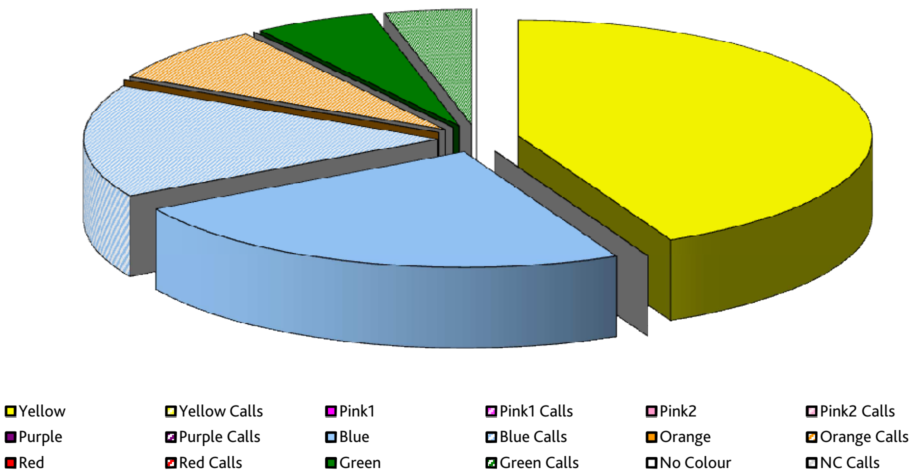
Shropshire Council

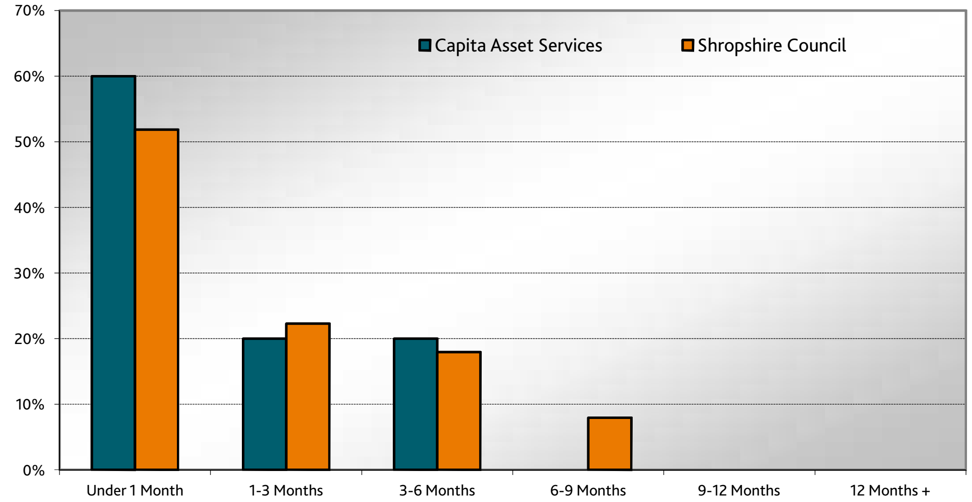
Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
National Westminster Bank Plc	4,830,000	0.50%		Call	A-	0.000%
HSBC Bank Plc	10,000,000	0.80%		Call	AA-	0.000%
Redditch Borough Council	3,000,000	0.31%	19/08/2013	01/10/2013	AA+	0.000%
Blaenau Gwent County Borough Council	2,000,000	0.28%	09/09/2013	03/10/2013	AA+	0.000%
Blaenau Gwent County Borough Council	1,500,000	0.29%	12/09/2013	03/10/2013	AA+	0.000%
Salford City Council	3,400,000	0.31%	02/07/2013	04/10/2013	AA+	0.000%
Barclays Bank Plc	2,200,000	0.40%	03/09/2013	04/10/2013	A	0.001%
Stockport Metropolitan Borough Council	3,900,000	0.30%	13/09/2013	10/10/2013	AA+	0.000%
Barclays Bank Plc	1,570,000	0.40%	06/09/2013	11/10/2013	A	0.003%
DMO	1,030,000	0.25%	06/09/2013	11/10/2013	AA+	0.001%
Huntingdonshire District Council	1,000,000	0.30%	11/09/2013	11/10/2013	AA+	0.001%
Dumfries & Galloway Council	3,000,000	0.29%	13/09/2013	14/10/2013	AA+	0.001%
Barnsley Metropolitan Borough Council	5,000,000	0.30%	13/09/2013	16/10/2013	AA+	0.001%
Telford & Wrekin Council	3,000,000	0.29%	19/09/2013	18/10/2013	AA+	0.001%
Nationwide Building Society	3,210,000	0.42%	20/08/2013	21/10/2013	A	0.005%
Glasgow City Council	4,990,000	0.31%	16/09/2013	23/10/2013	AA+	0.001%
Lloyds Bank Plc	900,000	0.70%	25/07/2013	25/10/2013	A	0.006%
Stirling Council	3,000,000	0.32%	26/07/2013	25/10/2013	AA+	0.001%
Stockport Metropolitan Borough Council	2,700,000	0.30%	11/09/2013	25/10/2013	AA+	0.001%
Lancashire County Council	5,000,000	0.32%	30/09/2013	31/10/2013	AA+	0.001%
Barclays Bank Plc	5,000,000	0.49%		Call35	A	0.009%
Lloyds Bank Plc	1,520,000	0.70%	13/08/2013	13/11/2013	A	0.011%
Glasgow City Council	3,000,000	0.35%	30/09/2013	13/11/2013	AA+	0.002%
Lloyds Bank Plc	5,000,000	0.70%	05/09/2013	05/12/2013	A	0.016%
Birmingham City Council	5,000,000	0.35%	06/09/2013	06/12/2013	AA+	0.003%
North Lanarkshire Council	2,000,000	0.35%	09/09/2013	09/12/2013	AA+	0.003%
Lloyds Bank Plc	5,000,000	0.70%	23/09/2013	20/12/2013	A	0.020%
Dudley Metropolitan Borough Council	1,500,000	0.40%	25/09/2013	31/12/2013	AA+	0.004%
National Westminster Bank Plc	15,000,000	0.80%		Call95	A-	0.023%
Lloyds Bank Plc	4,320,000	0.95%	11/04/2013	09/01/2014	A	0.025%
Lloyds Bank Plc	3,260,000	1.10%	04/04/2013	02/04/2014	A	0.045%
Lloyds Bank Plc	5,000,000	1.10%	11/04/2013	09/04/2014	A	0.046%
Lloyds Bank Plc	5,000,000	1.10%	19/04/2013	17/04/2014	A	0.048%
Total Investments	**£125,830,000**	**0.57%**				0.011%

Shropshire Council

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria





Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

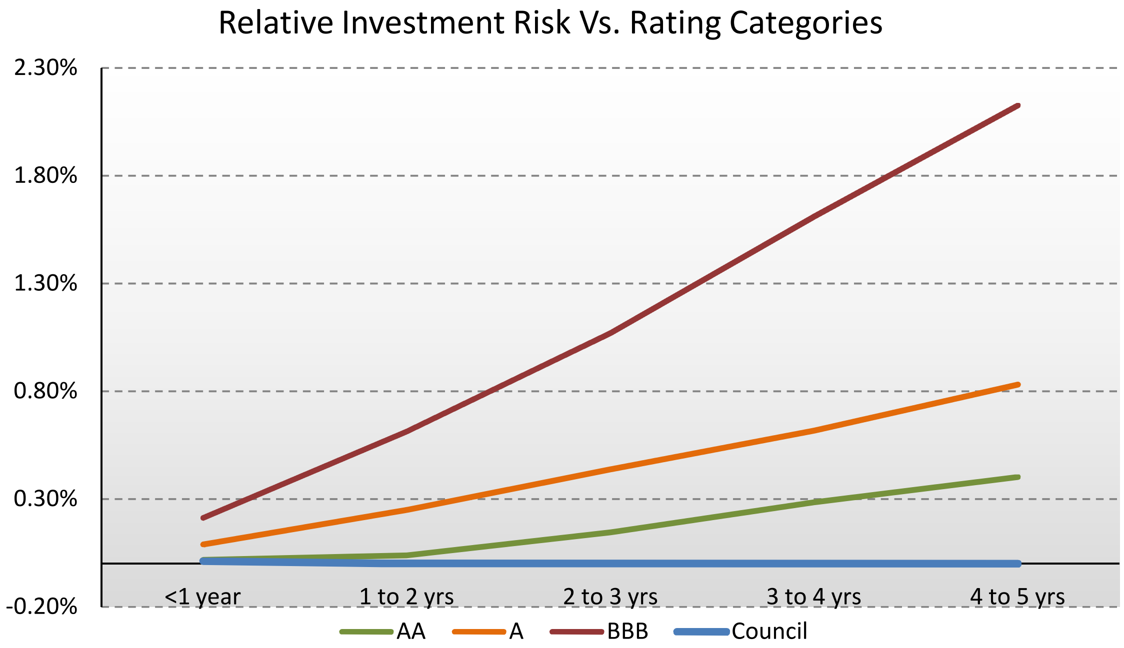
Portfolios weighted average risk number = 2.51

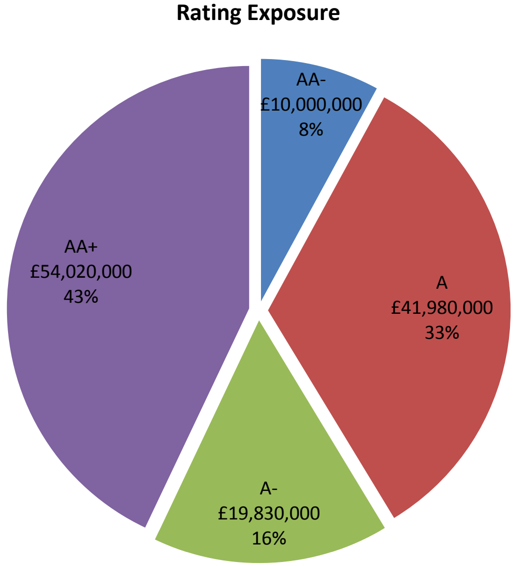
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/EMMFs WAM	Excluding Calls/MMFs/EMMFs WAM at Execution
Yellow	42.93%	£54,020,000	0.00%	£0	0.00%	0.31%	26	50	26	50
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	39.60%	£49,830,000	39.80%	£19,830,000	15.76%	0.84%	105	171	127	237
Orange	7.95%	£10,000,000	100.00%	£10,000,000	7.95%	0.80%	0	0	0	0
Red	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Green	9.52%	£11,980,000	41.74%	£5,000,000	3.97%	0.44%	22	42	13	46
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**£125,830,000**	**27.68%**	**£34,830,000**	**27.68%**	**0.57%**	**55**	**93**	**59**	**111**

Shropshire Council

Relative Investment Risk and Rating Exposure





Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.017%	0.038%	0.145%	0.284%	0.401%
A	0.089%	0.249%	0.438%	0.616%	0.831%
BBB	0.212%	0.613%	1.070%	1.610%	2.126%
Council	0.011%	0.000%	0.000%	0.000%	0.000%

Historic Risk of Default

This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

Chart Relative Risk

This is the authority's risk weightings compared to the average % risk of default for "AA", "A" and "BBB" rated investments

Rating Exposures

This pie chart provides a clear view of your investment exposures to particular ratings .

Monthly Credit Rating Changes

FITCH

Date	Update Number	Institution	Country	Rating Action
23/09/2013	1223	Lloyds Banking Group Plc	UK	Viability rating upgraded to 'bbb+' from 'bbb'.
23/09/2013	1223	Lloyds Bank Plc	UK	Viability rating upgraded to 'bbb+' from 'bbb'.
23/09/2013	1223	Nationwide Building Society	UK	Long Term rating downgraded to 'A' from 'A+', Outlook changed to Stable from Negative. Viability rating downgraded to 'A' from 'A+'.

Monthly Credit Rating Changes

MOODY'S

Date	Update Number	Institution	Country	Rating Action

Shropshire Council

Monthly Credit Rating Changes

S&P

Date	Update Number	Institution	Country	Rating Action
25/09/2013	1224	Svenska Handelsbanken AB	SWE	Long Term rating removed from 'Negative Watch' and placed on 'Negative Outlook'. Short Term rating removed from 'Negative Watch'.