

**SECTOR**

Appendix A

## **Shropshire Council**

### Monthly Investment Analysis Review

December 2010



# Shropshire Council

## Monthly Economic Summary

### General Economy

Policymakers at the Bank of England held interest rates at 0.5% for the 20th month in a row and maintained money-boosting efforts at £200bn under the Bank's quantitative easing programme, ending the year as it began. The latest Markit/CIPS Purchasing Managers' Index survey, where a reading above 50 indicates growth, showed the services sector registered a slight decline from 53.2 in October to 53 in November. Retailers have been particularly concerned in recent weeks as freezing temperatures and heavy snowfall have hampered trade. November's manufacturing index came in at 51.8, compared to the revised figure of 53.4 in October, pointing to continued growth in the UK economy. Retail sales grew by 0.7% in November from the same month the previous year, compared with growth of 0.8% the previous month. Consumer prices inflation has notched up 12 consecutive months above the Government's target rate of 2%. CPI inflation stands at 3.3% in November, up from 3.2% in October, whilst RPI inflation rose to 4.7%. The number of unemployed people rose by 35,000 to more than 2.5m in the three months to October, pushing the jobless rate up for the first time since July to 7.9%. The narrower measure of people claiming unemployment benefit fell by less than expected in November highlighting the vulnerability of the labour market even before the government's spending squeeze kicks in. The final revision of the UK economic forecast shows a weaker performance that was originally announced. Q3 GDP grew 0.7% between July and September. Previous estimated had suggested growth of 0.8%, following rises of 1.1% in Q2 and 0.3% at the start of the year.

### Housing Market

Contrary to the market expectations of yet another decline, the Nationwide's survey reported the average price of a home in December was 0.4% higher than a year ago, at £162,763. This is the first monthly rise since May, but the report states that trend is unlikely to continue as demand is still weak. The Halifax house price index recorded its first annual fall since November 2009. The lender, now part of Lloyds Banking Group, said that the average property was now 0.7% cheaper than a year ago, at £164,708. The three month on three-month comparison, a less volatile measure of house price changes, showed a 2.1% fall in November.

### Currency

The cable had a fairly stable month. Sterling started December at \$1.557 and reached a low of \$1.538 before ending the month at \$1.552. Sterling ended at €1.1593 against the Euro having started the month at €1.192. The Euro had a good month against the dollar starting at \$1.309 but ending the month at \$1.338. There was additional volatility in the middle of the month with Euro hitting \$1.344 against the Dollar.

### Forecast

Sector has chosen not to revise their forecast. Sector believe that the Bank rate will remain at 0.50% until Q4 2011 and eventually reaching 3% in September 2013. UBS continues to believe that the bank rate will remain at 0.50% until Q3 of 2011, reaching 1% by the end of 2011. Capital Economics have not changed their forecast and believe that rates will be held at 0.5% for up to five years, if things do not improve.

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%

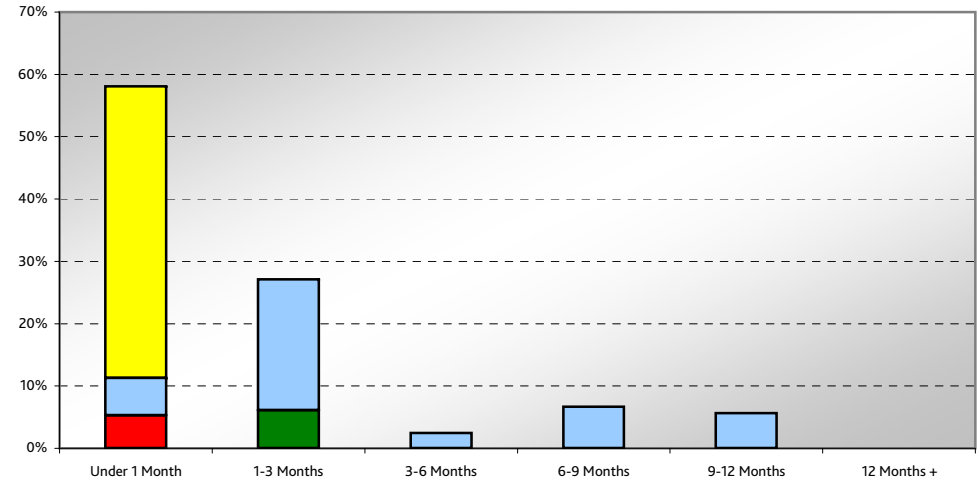
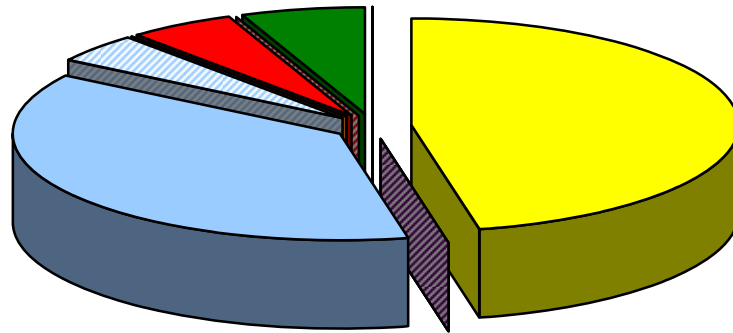
# Shropshire Council

## Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date
Natwest Instant Access	3,920,000	0.90%		Call
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
Lloyds TSB	2,000,000	1.30%	04/08/2010	02/02/2011
RBS	1,050,000	0.90%	07/09/2010	07/03/2011
RBS	1,980,000	0.95%	22/09/2010	18/03/2011
Lloyds TSB	1,390,000	1.08%	25/10/2010	25/01/2011
Clydesdale Bank	5,390,000	0.63%	04/11/2010	04/02/2011
Nationwide B Soc	1,000,000	0.54%	04/11/2010	06/01/2011
Lloyds TSB	4,590,000	1.12%	17/11/2010	17/02/2011
Taunton Dean B.C.	6,000,000	0.45%	23/11/2010	06/01/2011
London Borough of Brent	5,000,000	0.45%	24/11/2010	07/01/2011
Lancashire C.C	4,390,000	0.50%	26/11/2010	14/01/2011
Birmingham City Council	5,000,000	0.45%	01/12/2010	10/01/2011
Sheffield City Council	4,000,000	0.45%	01/12/2010	11/01/2011
Telford & Wrekin Council	2,000,000	0.45%	01/12/2010	04/01/2011
Lloyds TSB	3,950,000	1.17%	02/12/2010	02/03/2011
Birmingham City Council	5,000,000	0.45%	02/12/2010	12/01/2011
Telford & Wrekin Council	1,500,000	0.45%	02/12/2010	13/01/2011
Leeds City Council	2,700,000	0.45%	03/12/2010	12/01/2011
North Lanarkshire Council	3,000,000	0.50%	13/12/2010	18/01/2011
Southampton City Council	2,720,000	0.50%	14/12/2010	06/01/2011
Lloyds TSB	5,000,000	2.00%	15/12/2010	14/12/2011
Nationwide B Soc	3,660,000	0.50%	15/12/2010	28/01/2011
<b>Total Investments</b>	<b>£88,310,000</b>	<b>0.91%</b>		

# Shropshire Council

## 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

Y	P	B	O	R	G	N/C
1	2	3	4	5	6	7
Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 3mths	No Colour

Portfolios weighted average risk number = **2.4**

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	46.78%	£41,310,000	0.00%	£0	0.00%	0.46%	10	41	10	41
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	41.84%	£36,950,000	10.61%	£3,920,000	4.44%	1.51%	113	227	127	254
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	5.28%	£4,660,000	0.00%	£0	0.00%	0.51%	23	48	23	48
Green	6.10%	£5,390,000	0.00%	£0	0.00%	0.63%	35	92	35	92
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
<b>Total</b>	<b>100.00%</b>	<b>£88,310,000</b>	<b>4.44%</b>	<b>£3,920,000</b>	<b>4.44%</b>	<b>0.91%</b>	<b>55</b>	<b>122</b>	<b>58</b>	<b>128</b>

## Shropshire Council

### Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
03/12/2010	835	Landesbank Baden Wuerttemberg's (LBBW)	Germany	Negative Watch' removed from Individual rating
09/12/2010	837	Ireland - Sovereign rating	Ireland	Sovereign rating downgraded from 'A+' to 'BBB+' with 'Stable Outlook'
10/12/2010	838	State Street Bank and Trust Company	USA	Individual rating upgraded from 'B/C' to 'B'
10/12/2010	840	Allied Irish Banks plc	Ireland	LT rating downgraded from 'A-' to 'BBB' with 'Stable Outlook'. ST rating downgraded from 'F1' to 'F2'. Individual rating downgraded from 'D/E' to 'E'. Support rating downgraded from '1' to '2'
10/12/2010	840	Bank of Ireland	Ireland	LT rating downgraded from 'A-' to 'BBB' with 'Stable Outlook'. ST rating downgraded from 'F1' to 'F2'. Individual rating downgraded from 'C/D' to 'D/E'. Support rating downgraded from '1' to '2'
10/12/2010	840	EBS Building Society	Ireland	LT & ST rating watch revised from 'Evolving' to 'Negative'. Individual rating downgraded from 'D/E' to 'E'
10/12/2010	840	Irish Life & Permanent plc	Ireland	Individual rating downgraded from 'D' to 'D/E'
14/12/2010	842	Bank of Tokyo Mitsubishi UFJ	Japan	Individual rating upgraded from 'C' to 'B/C'
14/12/2010	844	Fortis Bank	Belgium	Individual rating upgraded from 'D' to 'C/D'
15/12/2010	846	Confederacion Espanola de Cajas de Ahorros	Spain	LT rating downgraded from 'AA-' to 'A+' with a 'Negative Outlook'. ST rating downgraded from 'F1+' to 'F1'
16/12/2010	847	Canadian Imperial Bank of Commerce (CIBC)	Canada	LT rating outlook revised from 'Negative' to 'Stable'
20/12/2010	851	Merrill Lynch International Bank	Ireland	Individual rating upgraded from 'C/D' to 'C'
24/12/2010	856	Portugal - Sovereign Rating	Portugal	Sovereign rating downgraded from 'AA-' to 'A+' with a 'Negative Outlook'
24/12/2010	857	Caixa Geral de Depositos	Portugal	LT rating downgraded from 'A+' to 'A' with 'Negative Outlook'

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### Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
02/12/2010	833	Bank of Ireland	Ireland	FSR rating placed 'under review for possible downgrade'
02/12/2010	833	EBS Building Society	Ireland	FSR rating placed 'under review for possible downgrade'
02/12/2010	833	Irish Life & Permanent plc	Ireland	FSR rating placed 'under review for possible downgrade'
02/12/2010	833	Allied Irish Banks	Ireland	FSR rating placed 'under review for possible downgrade'
07/12/2010	836	Wells Fargo Bank NA	USA	FSR rating upgraded from 'C' to 'C+' with 'Stable Outlook'
10/12/2010	839	Banco BPI SA	Portugal	LT, ST and FSR rating placed 'under review for possible downgrade'
10/12/2010	839	Banco Santander Totta SA	Portugal	LT, ST and FSR rating placed 'under review for possible downgrade'
10/12/2010	839	Caixa Geral de Depositos SA	Portugal	LT, ST and FSR rating placed 'under review for possible downgrade'
13/12/2010	841	Royal Bank of Canada	Canada	LT rating downgraded from 'Aaa' to 'Aa1'. FSR downgraded from 'B+' to 'B'. LT & FSR on 'Stable Outlook'
15/12/2010	845	Spain - Sovereign Rating	Spain	Sovereign rating placed 'under review for possible downgrade'
17/12/2010	849	Ireland - Sovereign Rating	Ireland	Sovereign rating downgraded from 'Aa2' to 'Baa1' with 'Negative Outlook'
17/12/2010	850	Bank of Montreal	Canada	LT & FSR placed 'under review for possible downgrade'
20/12/2010	852	Allied Irish Banks	Ireland	LT rating downgraded from 'A1' to 'Baa3' with 'Negative Outlook'. ST rating downgraded from 'P-1' to 'P-3'. FSR rating downgraded from 'D' to 'D-'
20/12/2010	852	Bank of Ireland	Ireland	LT rating downgraded from 'A1' to 'Baa2' with 'Negative Outlook'. ST rating downgraded from 'P-1' to 'P-2'. FSR rating downgraded from 'D+' to 'D'
20/12/2010	852	EBS Building Society	Ireland	LT rating downgraded from 'A3' to 'Baa3' with 'Negative Outlook'. ST rating downgraded from 'P-2' to 'P-3'. FSR rating downgraded from 'D' to 'D-'
20/12/2010	852	Irish Life & Permanent	Ireland	LT rating downgraded from 'A3' to 'Baa3' with 'Negative Outlook'. ST rating downgraded from 'P-2' to 'P-3'. FSR rating downgraded from 'D' to 'D-'
20/12/2010	852	Anglo Irish Bank Corporation plc	Ireland	LT rating downgraded from 'A3' to 'Baa3' with 'Negative Outlook'. ST rating downgraded from 'P-1' to 'P-3'
20/12/2010	853	Banco Bilbao Vizcaya Argentaria	Spain	LT rating placed 'under review for possible downgrade'
20/12/2010	853	Banco Popular Espanol	Spain	LT rating placed 'under review for possible downgrade'
20/12/2010	853	Banco Santander	Spain	LT rating placed 'under review for possible downgrade'
21/12/2010	854	Credit Agricole SA	France	FSR rating downgraded from 'B-' to 'C+'. LT & FSR rating placed on 'Stable Outlook'
21/12/2010	855	Portugal - Sovereign Rating	Portugal	Sovereign rating of Portugal placed 'under review for possible downgrade'

## Shropshire Council

### Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
01/12/2010	832	Portugal - Sovereign Rating	Portugal	Sovereign rating of Portugal placed on 'Negative Watch'
03/12/2010	834	Banco BPI SA	Portugal	LT & ST rating placed on 'Negative Watch'
03/12/2010	834	Banco Santander Totta SA	Portugal	LT & ST rating placed on 'Negative Watch'
03/12/2010	834	Caixa Geral de Depositos SA	Portugal	LT & ST rating placed on 'Negative Watch'
14/12/2010	843	Belgium - Sovereign Rating	Belgium	Sovereign rating of Belgium placed on 'Negative Outlook'
16/12/2010	848	Hong Kong - Sovereign Rating	Hong Kong	Sovereign rating of Hong Kong upgraded from 'AA+' to 'AAA' with a 'Stable Outlook'