

Shropshire Council  
Monthly Investment Analysis Review  
December 2013



# Shropshire Council

## Monthly Economic Summary

### General Economy

The flurry of positive news continued unabated in December with signs of continuing strength in the UK economy, alongside the eagerly awaited news regarding commencement of policy tapering by the Federal Reserve.

The UK Services and Manufacturing PMI's both remained at elevated levels in November. The Services measure slipped slightly to 60.0 from 62.5 in October, while the Manufacturing index reached its strongest pace in three years at 58.4. With both of these measures comfortably above 50, separating expansion from contraction, they were indicative of the success that the UK economy has enjoyed through the second half of 2013. In addition, the UK 3rd quarter GDP remained unchanged at 0.8%.

December saw a mostly positive Autumn Statement with the Chancellor, including a series of upgraded growth forecasts from the Office for Budget Responsibility (OBR). With regard to economic growth, forecasts for this year were increased from 0.6% to 1.4%, with additional revisions for 2014 from 1.8% to 2.4%. Conversely, there were some downward projections in the years 2015-17 to 2.2%, 2.6% and 2.7% respectively. Moreover, the Budget revealed that within the years 2008-09 UK GDP declined by 7.2% as opposed to the previously reported 6.3%, equalling a value of £112bn. Unemployment, one of the key indicators of late, is now forecasted to fall from 7.6% this year to 7% in 2015, falling further to 5.6% by 2018. There was also positive news on the public finances as the OBR predicted there will be a small cash surplus in 2018-19. In the interim, forecasts for the underlying deficit (excluding financial interventions) were revised down for 2013 and 2014 to 6.8% and 5.6% respectively. Public Sector Net Borrowing is currently expected to come in at £111bn for 2013-14 decreasing in 2014-15 to £69bn. The total Public Sector Net Debt is due to reach 75.5% of GDP this year, £18bn lower than the forecast in March.

December also saw the release of UK industrial production for October, which grew at a rate of 0.4 % month-on-month, marginally higher than the forecast figure of 0.3%. There was also positive data released regarding the UK's unemployment rate, which in the three months to October, fell to a four and a half year low of 7.4%, reinforcing the view that conditions in the labour market are continuing to improve. This was due to a material 250,000 rise in employment in the three months to October. Despite this increase, retail sales volume continued to falter with only a 0.3% increase in November, thereby only partly reversing October's 0.9% fall. On a more positive note, British inflation edged down in November to its lowest level in four years, as consumer prices rose 2.1% on the year as the impact of higher gas and electricity prices had yet to be felt, the Office for National Statistics said.

In the US there was further positive news as the second reading of 3rd quarter GDP came in at 3.6%, a significant uplift from the initial estimate of 2.5%, surpassing even the most optimistic forecasts. This continuation of growth provided a further reason for the Federal Reserve to embark on their long anticipated policy tapering program. This will take the form of an immediate \$10bn monthly reduction in asset purchases, with subsequent monthly reductions dependent on the continuing improvement of economic conditions.

### Housing Market

Housing has witnessed a sustained period of encouraging signs, to the point that the mortgage-related element of the Funding for Lending scheme was removed during the. Adding to already promising figures, Halifax reported an increase in prices of 1.1% for November - an increase of 7.7% on the year. Mortgage approvals in the UK rose in November from October and were 39% higher than a year earlier, seasonally adjusted data from the British Bankers' Association showed. Nationwide also reported that UK house prices increased by 1.4% month on month and by 8.4% since December 2012, giving further credence to the view that the UK housing market is gaining traction.

### Forecast

Capita Asset Services kept its interest rate forecast the same this month and are expecting the first increase in Bank Rate in Q2 2016. Meanwhile, UBS and Capital Economics have both left their forecasts unchanged, with no expectation of an increase in Bank Rate in the immediate future.

| Bank Rate             | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 |
|-----------------------|--------|--------|--------|--------|--------|
| 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%  |

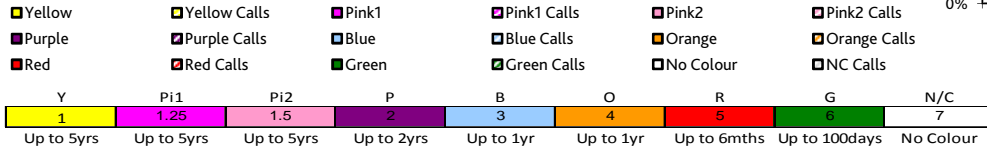
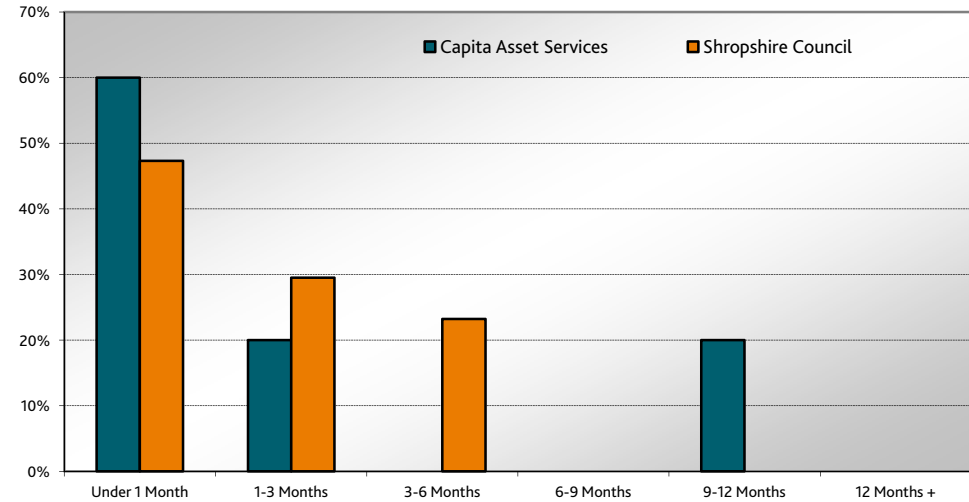
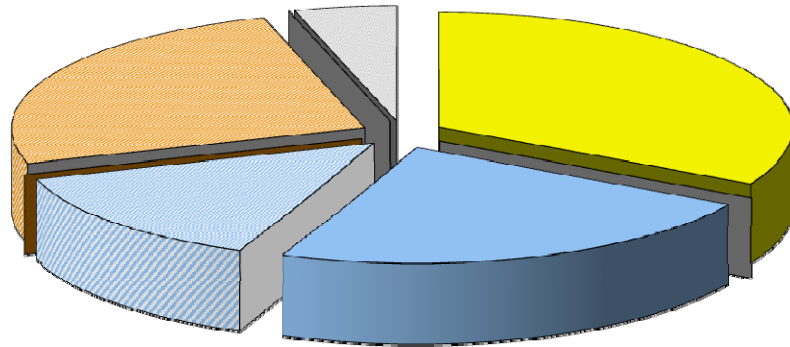
## Shropshire Council

### Current Investment List

| Borrower                      | Principal (£)       | Interest Rate | Start Date | Maturity Date | Lowest Long Term Rating | Historic Risk of Default |
|-------------------------------|---------------------|---------------|------------|---------------|-------------------------|--------------------------|
| HSBC Bank Plc                 | 20,000,000          | 0.80%         |            | Call          | AA-                     | 0.000%                   |
| Svenska Handelsbanken AB      | 7,210,000           | 0.70%         |            | Call          | AA-                     | 0.000%                   |
| Nottingham City Council       | 1,000,000           | 0.36%         | 04/10/2013 | 03/01/2014    | AA+                     | 0.000%                   |
| Lloyds Bank Plc               | 4,320,000           | 0.95%         | 11/04/2013 | 09/01/2014    | A                       | 0.002%                   |
| Waveney District Council      | 1,500,000           | 0.36%         | 11/11/2013 | 10/01/2014    | AA+                     | 0.000%                   |
| Birmingham City Council       | 5,000,000           | 0.36%         | 15/10/2013 | 15/01/2014    | AA+                     | 0.001%                   |
| Cornwall County Council       | 3,000,000           | 0.35%         | 16/10/2013 | 16/01/2014    | AA+                     | 0.001%                   |
| Stirling Council              | 3,000,000           | 0.37%         | 25/10/2013 | 24/01/2014    | AA+                     | 0.001%                   |
| Lloyds Bank Plc               | 900,000             | 0.70%         | 25/10/2013 | 27/01/2014    | A                       | 0.007%                   |
| Wolverhampton City Council    | 5,000,000           | 0.40%         | 29/10/2013 | 29/01/2014    | AA+                     | 0.001%                   |
| North Lanarkshire Council     | 5,000,000           | 0.38%         | 01/11/2013 | 04/02/2014    | AA+                     | 0.002%                   |
| Barclays Bank Plc             | 5,000,000           | 0.54%         |            | Call35        | A                       | 0.009%                   |
| Nottingham City Council       | 2,000,000           | 0.36%         | 15/11/2013 | 06/02/2014    | AA+                     | 0.002%                   |
| Lloyds Bank Plc               | 1,520,000           | 0.70%         | 13/11/2013 | 13/02/2014    | A                       | 0.011%                   |
| Coventry City Council         | 5,000,000           | 0.40%         | 25/11/2013 | 25/02/2014    | AA+                     | 0.003%                   |
| Birmingham City Council       | 5,000,000           | 0.45%         | 06/12/2013 | 06/03/2014    | AA+                     | 0.003%                   |
| Lloyds Bank Plc               | 5,000,000           | 0.70%         | 05/12/2013 | 07/03/2014    | A                       | 0.016%                   |
| Lloyds Bank Plc               | 3,260,000           | 1.10%         | 04/04/2013 | 02/04/2014    | A                       | 0.022%                   |
| National Westminster Bank Plc | 15,000,000          | 0.80%         |            | Call95        | A-                      | 0.023%                   |
| Lloyds Bank Plc               | 5,000,000           | 1.10%         | 11/04/2013 | 09/04/2014    | A                       | 0.024%                   |
| Lloyds Bank Plc               | 5,000,000           | 1.10%         | 19/04/2013 | 17/04/2014    | A                       | 0.026%                   |
| <b>Total Investments</b>      | <b>£107,710,000</b> | <b>0.68%</b>  |            |               |                         | <b>0.008%</b>            |

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## Portfolio Breakdown by Capita Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **2.78**

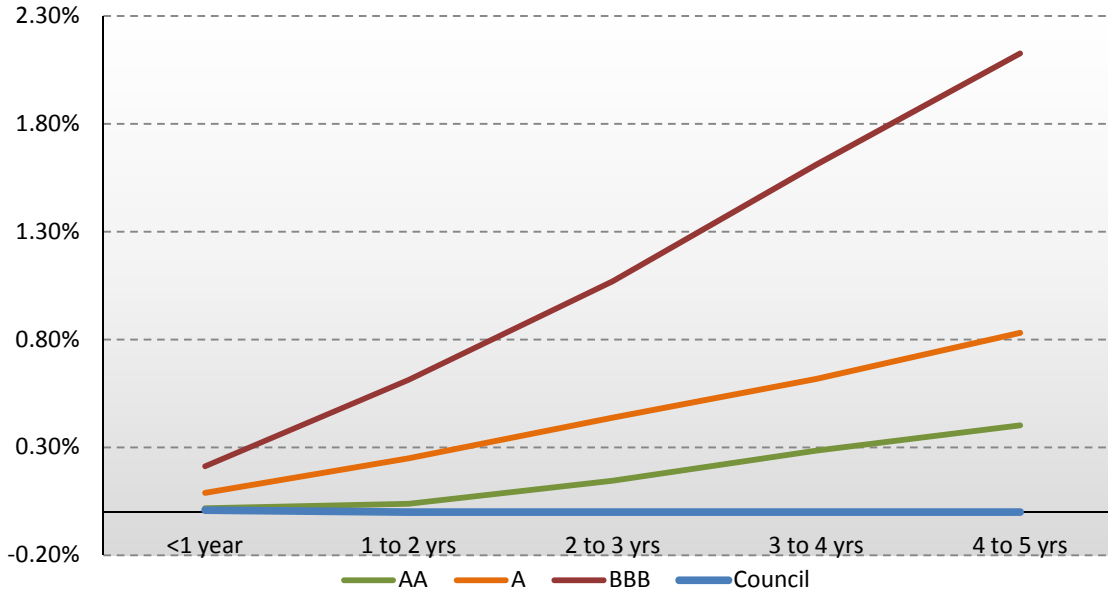
WARoR = Weighted Average Rate of Return  
WAM = Weighted Average Time to Maturity

|              | % 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                        | WAM at Execution |
| Yellow       | 32.96%         | £35,500,000         | 0.00%                | £0                        | 0.00%                  | 0.39%        | 34        | 90               | 34                         | 90               |
| 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         | 37.14%         | £40,000,000         | 37.50%               | £15,000,000               | 13.93%                 | 0.90%        | 80        | 203              | 72                         | 267              |
| Orange       | 25.26%         | £27,210,000         | 100.00%              | £27,210,000               | 25.26%                 | 0.77%        | 0         | 0                | 0                          | 0                |
| Red          | 0.00%          | £0                  | 0.00%                | £0                        | 0.00%                  | 0.00%        | 0         | 0                | 0                          | 0                |
| Green        | 0.00%          | £0                  | 0.00%                | £0                        | 0.00%                  | 0.00%        | 0         | 0                | 0                          | 0                |
| No Colour    | 4.64%          | £5,000,000          | 100.00%              | £5,000,000                | 4.64%                  | 0.54%        | 35        | 35               | 0                          | 0                |
| <b>Total</b> | <b>100.00%</b> | <b>£107,710,000</b> | <b>43.83%</b>        | <b>£47,210,000</b>        | <b>43.83%</b>          | <b>0.68%</b> | <b>43</b> | <b>107</b>       | <b>50</b>                  | <b>163</b>       |

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## Relative Investment Risk and Rating Exposure

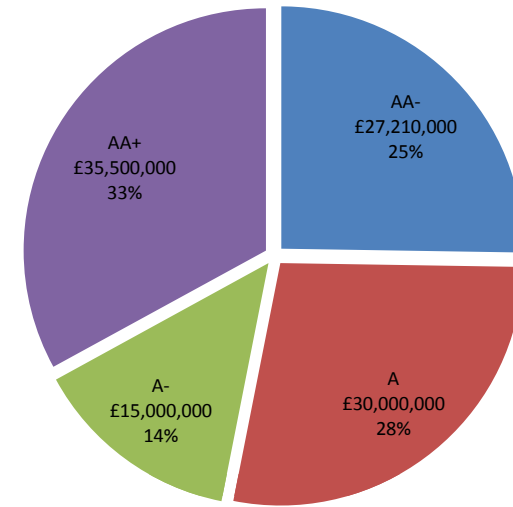
Relative Investment Risk Vs. Rating Categories



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      | 0.008%  | 0.000%     | 0.000%     | 0.000%     | 0.000%     |

Rating Exposure



### 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 .

## Shropshire Council

### Monthly Credit Rating Changes FITCH

| Date       | Update Number | Institution           | Country      | Rating Action   |
|------------|---------------|-----------------------|--------------|---|
| 11/12/2013 | 1242          | Arab National Bank    | Saudi Arabia | Long Term Rating Affirmed at 'A', Outlook changed to Stable from Negative; Short Term Rating Affirmed at 'F1', Viability Rating Affirmed at 'a'; Support Rating Affirmed at '1';  |
| 20/12/2013 | 1244          | Co-operative Bank Plc | UK           | Long Term Rating Affirmed at 'B', removed from Negative Watch and placed on Negative Outlook, Short Term Rating Affirmed at 'B', removed from Negative Watch; Viability Rating Downgraded to 'f' from 'c' then immediately upgraded to 'b'; Support Rating Affirmed at '5'; |

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### Monthly Credit Rating Changes MOODY'S

| Date       | Update Number | Institution      | Country | Rating Action  |
|------------|---------------|------------------|---------|--|
| 10/12/2013 | 1241          | Danske Bank      | Denmark | Long Term Rating Affirmed at 'Baa1', Outlook changed to Positive from Stable; Short Term Rating Affirmed at 'P-2'; Financial Strength Rating Affirmed at 'C-' with Stable Outlook;                   |
| 19/12/2013 | 1243          | Deutsche Bank AG | Germany | Long Term Rating Affirmed at 'A2', Outlook changed to Negative from Stable; Short Term Rating Affirmed at 'P-1'; Financial Strength Rating Affirmed at 'C-' Outlook changed to Negative from Stable; |
| 27/12/2013 | 1245          | Skipton BS       | UK      | Long Term Rating Affirmed at 'Ba1', Outlook changed to Stable from Negative; Short Term Rating Affirmed at 'NP'; Financial Strength Rating Affirmed at 'D+' Outlook changed to Stable from Negative; |

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## Monthly Credit Rating Changes

S&P

| Date       | Update Number | Institution                | Country     | Rating Action  |
|------------|---------------|----------------------------|-------------|--|
| 03/12/2013 | 1240          | Bank Nederlandse Gemeenten | Netherlands | Long Term Rating downgraded to 'AA+' from 'AAA', Outlook changed to Stable from Negative; Short Term Rating Affirmed at 'A-1+' |
| 03/12/2013 | 1240          | ING Bank NV                | Netherlands | Long Term Rating downgraded to 'A' from 'A+', Outlook changed to Stable from Negative; Short Term Rating Affirmed at 'A-1'     |