CAPITA

Treasury solutions

Asset Services

Shropshire Council

Monthly Investment Analysis Review

September 2015

Shropshire Council

Monthly Economic Summary

General Economy

After months of speculation, a highly awaited Federal Reserve (Fed) meeting led to no change in the base rate. The Fed cited “Recent global economic and financial developments” for why monetary policy was left unchanged. This was in the context of China’s economy showing no improvement as its manufacturing sector had its worst month since the global financial crisis of 2009.

The Monetary Policy Committee (MPC) voted 8-1 in favour of keeping rates unchanged at their historic low of 0.5% in its September meeting. The MPC believed it was too soon to confirm the extent of the adverse impacts of China’s slowing economy on the UK. The committee further stated that price pressures showed little change on the month and that higher levels of core inflation are compensated by dropping oil prices. In the past few months, the Governor of the central bank has hinted that a rate hike could be appropriate around the turn of the year, but market expectations have now shifted to next summer. The Governor has, however, said that he believes China's problems do not appear to have yet had a detrimental effect on the UK.

British inflation stumbled to 0% again as a result of the biggest drop in oil prices since the beginning of the year. Another factor contributing to lower inflation is a slower seasonal increase in prices of clothing than in 2014. Inflation remaining stubbornly below the Bank of England’s 2% target is likely to keep the Bank’s outlook dovish. The final reading of UK Q2 GDP saw economic growth revised down to 2.4%, year on year. UK public finances for August added more gloom as it recorded the widest budget deficit since 2012. Public Sector Net Borrowing rose to £12.1bn in August from £10.7bn, well above economists’ forecasts. However, income tax receipts for July have still yet to be accounted for, which may well change the figure. The unemployment rate in the UK remained stable at 5.5% in the three months to July, a record low since before the financial crisis. In addition, average weekly earnings displayed a 2.9% rise in the 3 months to July, both excluding and including bonuses. Furthermore, private sector pay grew even faster, rising by 3.7%. Non-existent inflation combined with solid wage growth figures displayed that households are finally starting to experience strong real income gains.

The European Central Bank (ECB) left its rate unchanged at 0.05%, as expected. The central bank downgraded its inflation forecasts and ECB President Mario Draghi stated the bank is prepared to increase its €1.1tn bond buying programme. The 19-nation bloc experienced deflation for the first time in 6 months as annual inflation fell to -0.1% in September predominantly driven by a decline in energy prices. This reinforced the argument for the ECB to expand its asset purchasing programme. On a more positive note, the second reading of Q2 Eurozone GDP was revised up to 0.4% quarter-on-quarter from its previous estimate of 0.3%. Year-on-year, the Eurozone expanded by 1.5%. The revision was mainly due to Italy’s economy performing better than expected, as well as Germany and France reporting stronger growth figures. Eurozone unemployment was announced at 11% for August, with the July figure being revised upwards also to 11% from a previously reported 10.9%. Spain and Greece are still experiencing the highest unemployment levels in the bloc, with 22.2% and 25.2% respectively, whilst Germany, Austria and Malta were among the lowest.

The August Non-farm payrolls data release showed the US economy created 173,000 jobs, far less than the expected figure of 220,000. The manufacturing sector lost the most jobs in more than two years and the August figure showed the lowest increase in five months. The unemployment rate, however, fell to 5.1%, the lowest in nearly 10 years. US Q2 GDP was revised up to 3.9% from the 3.7% previously reported. The rise was mainly attributed to growth in consumer spending, particularly on healthcare and transport.

A widely anticipated Federal Reserve meeting, which some analysts believed would finally result in a rate hike, was of little excitement as the Fed maintained the status quo. Although the forecasts for the current year were upbeat with GDP and inflation forecasts both revised up and unemployment revised down, global economic weakness was the main reason to keep rates steady. Particularly, China’s economic slowdown was viewed as a great cause for concern. However, the Fed is still open to the possibility of a rate rise later this year with 13 out of the 17 Fed policymakers predicting a rate rise later this year.

Currency

Sterling opened the month at $1.533 against the US dollar and closed at $1.514. Against the Euro, Sterling opened at €1.361 and closed at €1.356.

Forecast

Capita Asset Services did not alter its forecast this month. Capita Asset Services expects the first rate hike to come in the second quarter of 2016. Capital Economics left their forecast unchanged in September. They expect the first Bank Rate increase to come in Q2 2016.

Bank Rate	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Capita Asset Services	0.50%	0.50%	0.75%	0.75%	1.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%

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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	15,370,000	0.45%		Call	AA-	0.000%
Devon County Council	2,000,000	0.30%	10/09/2015	09/10/2015	AA+	0.000%
Nationwide Building Society	2,100,000	0.66%	13/04/2015	12/10/2015	A	0.002%
Birmingham City Council	5,000,000	0.40%	13/07/2015	13/10/2015	AA+	0.000%
Stockport Metropolitan Borough Council	1,350,000	0.30%	14/09/2015	14/10/2015	AA+	0.000%
Kingston Upon Hull City Council	3,000,000	0.30%	15/09/2015	15/10/2015	AA+	0.000%
Glasgow City Council	2,000,000	0.30%	22/09/2015	23/10/2015	AA+	0.000%
Birmingham City Council	5,000,000	0.40%	28/07/2015	29/10/2015	AA+	0.001%
Barclays Bank Plc	5,000,000	0.58%		Call35	A-	0.006%
Cornwall Council	5,000,000	0.40%	05/05/2015	05/11/2015	AA+	0.001%
London Borough of Barking & Dagenham	5,000,000	0.33%	08/09/2015	09/11/2015	AA+	0.001%
Lloyds Bank Plc	1,400,000	0.57%	11/08/2015	11/11/2015	A	0.007%
Eastleigh Borough Council	4,000,000	0.45%	19/05/2015	19/11/2015	AA+	0.001%
Lancashire County Council	5,000,000	0.45%	22/05/2015	20/11/2015	AA+	0.001%
North Tyneside Metropolitan Borough Council	4,000,000	0.35%	20/08/2015	20/11/2015	AA+	0.001%
Nationwide Building Society	3,000,000	0.66%	22/06/2015	21/12/2015	A	0.014%
Lloyds Bank Plc	900,000	0.57%	22/09/2015	22/12/2015	A	0.014%
Nationwide Building Society	2,000,000	0.50%	23/09/2015	23/12/2015	A	0.014%
Lloyds Bank Plc	1,520,000	0.57%	29/09/2015	04/01/2016	A	0.016%
Lancashire County Council	5,000,000	0.42%	01/07/2015	05/01/2016	AA+	0.002%
Lloyds Bank Plc	4,320,000	1.00%	08/01/2015	07/01/2016	A	0.017%
Lloyds Bank Plc	3,600,000	1.00%	09/01/2015	08/01/2016	A	0.017%
Nationwide Building Society	2,900,000	0.66%	04/08/2015	04/02/2016	A	0.022%
Barclays Bank Plc	3,250,000	0.70%	06/08/2015	05/02/2016	A-	0.022%
Barclays Bank Plc	5,000,000	0.70%	16/09/2015	15/03/2016	A-	0.028%
Lloyds Bank Plc	2,420,000	1.00%	17/03/2015	16/03/2016	A	0.029%
Lloyds Bank Plc	2,580,000	1.00%	31/03/2015	30/03/2016	A	0.031%
Lloyds Bank Plc	3,260,000	1.00%	01/04/2015	31/03/2016	A	0.031%
Lloyds Bank Plc	5,000,000	1.00%	08/04/2015	07/04/2016	A	0.032%
Lloyds Bank Plc	5,000,000	1.00%	16/04/2015	14/04/2016	A	0.033%
National Westminster Bank Plc	10,000,000	0.86%	16/06/2015	15/06/2016	BBB+	0.107%
National Westminster Bank Plc	5,000,000	0.92%	22/07/2015	21/07/2016	BBB+	0.122%
Total Investments	**£149,970,000**	**0.65%**				0.019%

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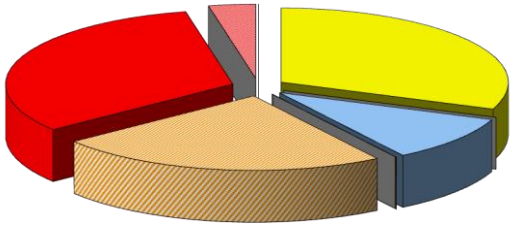
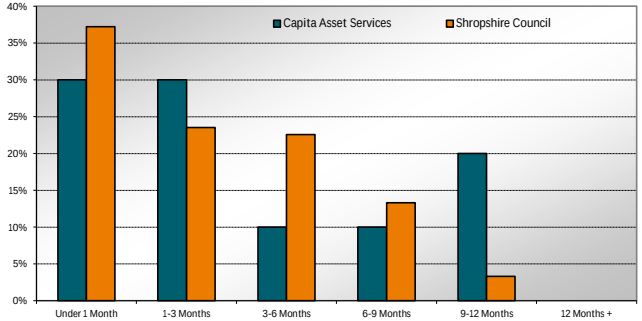
Portfolio Composition by Capita Asset Services' Suggested Lending Criteria





Yellow	Yellow Calls	Pink1	Pink1 Calls	Pink2	Pink2 Calls
Purple	Purple Calls	Blue	Blue Calls	Orange	Orange Calls
Red	Red Calls	Green	Green Calls	No Colour	NC Calls

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 = 3.33

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	30.91%	£46,350,000	0.00%	£0	0.00%	0.38%	40	116	40	116
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	10.00%	£15,000,000	0.00%	£0	0.00%	0.88%	271	365	271	365
Orange	23.58%	£35,370,000	100.00%	£35,370,000	23.58%	0.65%	0	0	0	0
Red	35.51%	£53,250,000	9.39%	£5,000,000	3.33%	0.81%	126	248	135	270
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**£149,970,000**	**26.92%**	**£40,370,000**	**26.92%**	**0.65%**	**84**	**160**	**114**	**218**

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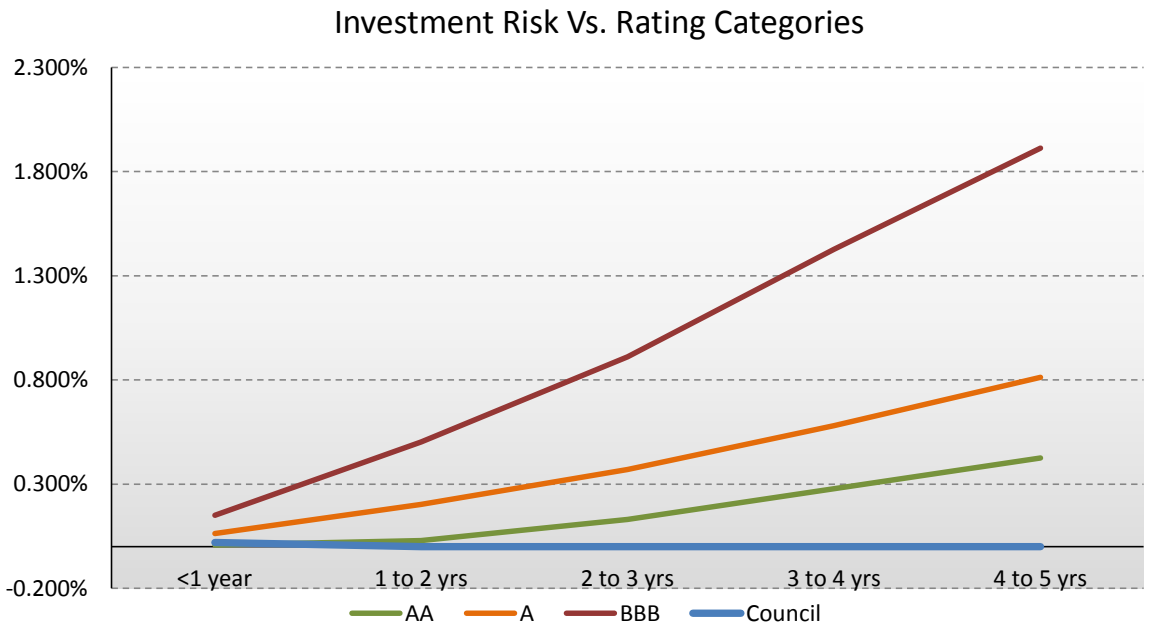
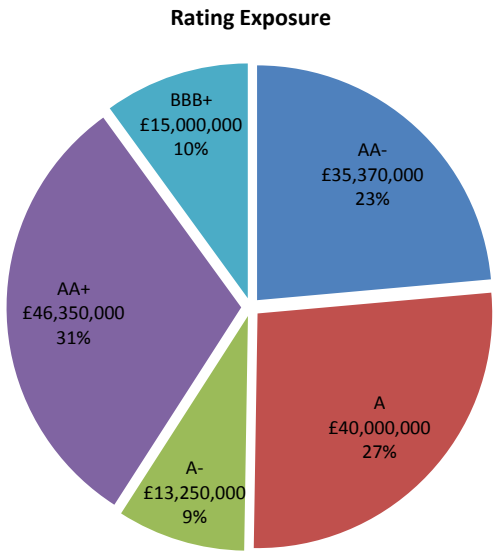
Investment Risk and Rating Exposure





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	0.007%	0.029%	0.130%	0.278%	0.425%
A	0.062%	0.202%	0.370%	0.581%	0.813%
BBB	0.150%	0.502%	0.910%	1.428%	1.912%
Council	0.019%	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.

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Monthly Credit Rating Changes

FITCH

Date	Update Number	Institution	Country	Rating Action
02/09/2015	1382	Riyad Bank	Saudi Arabia	Changed the Outlook on the Long Term Rating of Riyad Bank to Negative from Stable. Affirmed its 'A' Long Term and 'F1' Short Term Ratings

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Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
16/09/2015	1383	Skipton Building Society	United Kingdom	Affirmed the 'Baa2' Long Term and 'P-2' Short Term Ratings of Skipton Building Society. The Long Term Rating was removed from Positive Watch and placed on Stable Outlook.
17/09/2015	1384	Santander UK plc	United Kingdom	Affirmed the 'A1' Long Term and 'P-1' Short Term Ratings of Santander UK plc. The Long Term Rating was removed from Positive Watch and placed on Stable Outlook.
18/09/2015	1386	Abbey National Treasury Services	United Kingdom	Affirmed the 'A1' Long Term and 'P-1' Short Term Ratings of Abbey National Treasury Services plc. The Long Term Rating was removed from Positive Watch and placed on Stable Outlook.
21/09/2015	1387	France	France	Downgraded the Sovereign Rating to 'Aa2' from 'Aa1' and the Outlook was changed to Stable from Negative
24/09/2015	1388	Credit Industriel et Commercial	France	Downgraded the Long Term Rating to 'Aa3' from 'Aa2' while the Short Term Rating was affirmed. The Outlook on the Long Term Rating was changed to Stable from Negative.

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Monthly Credit Rating Changes

S&P

Date	Update Number	Institution	Country	Rating Action
17/09/2015	1385	Sumitomo Mitsui Banking Coporation Europe Ltd	United Kingdom	Downgraded the Long Term Rating to 'A' from 'A+' and changed the Outlook to Stable from Negative.
25/09/2015	1389	Finland	Finland	The Long Term Rating was affirmed at 'AA+' and the Outlook was changed to Negative from Stable.