



Shropshire Council

Monthly Investment Analysis Review

September 2018

General Economy

The data releases for the month began with August's Markit/CIPS Manufacturing Purchasing Managers Index (PMI) activity survey. This saw a decrease from the previous figure of 53.8, to a weaker 52.8. Construction PMI also took a hit, as it went down to 52.9 from 55.8, a huge fall and far lower than what was predicted. However, Services PMI was a stronger performer, rising from 53.5 to 54.3. GDP figures were stronger than expected; the m/m measure for July came in at 0.3%, an increase from 0.1% previously and above forecasts. The y/y measure was 1.6%, beating both the previous figure and forecasts. Brexit-related uncertainty is still a factor but the data provided a positive sign that growth has improved at the start of the quarter.

In terms of the UK's trade balance, the overall deficit decreased to £9.97bn. This was a drop of nearly £2bn, showing a narrowing of the current account deficit. The non-EU figure also fell to £2.8bn. Both of these figures beat forecasts, and provide evidence of a rebalancing of the UK's trade.

Unemployment remained at 4% for July, in line with forecasts and still at the lowest level since 1975. After a long wait, this continually low level seems to finally be feeding into wage growth, with an increase 2.9% excluding bonuses. The 3M y/y figure is 2.6% including bonuses, both increases from the previous month. Whether the low unemployment rate will have a more sustained impact on wage growth is yet to be seen.

In mid-September, the Bank of England's Monetary Policy Committee chose to hold the base rate at 0.75% following the August hike. Bank Governor Mark Carney reiterated that the Committee is in no rush to raise rates back to more "normal" levels, and with Brexit uncertainty coming to the fore, markets are showing little to no expectation of a further rate hike until Q2/Q3 2019.

The inflation figures for August came out far higher than expected, with Consumer Price Index (CPI) y/y at 2.7%, up from 2.4% in July. The rise in inflation was driven by particularly volatile components so forecasters expect the pickup to be temporary. The monthly CPI figure was 0.7%, up from 0.5%, while Core CPI y/y rose unexpectedly to 2.1% from a previous figure of 1.8%. Despite the increase in price pressures, market participants continued to play down any expectations of a near-term rate hike. Their belief is primarily based on Brexit uncertainty and the fact that inflation is likely to fall towards the Bank's inflation target of 2% through this year and 2019.

Retail sales were expected to show negative growth in August after a strong summer of good weather. However, the figure surprisingly stayed positive at 0.3% m/m, and the y/y figure only fell to 3.3%, well above forecasts of a drop to 2.3%. Within the overall data, food sales did register a small fall, but this was more than offset by the largest monthly increase in sales of household goods since May 2016.

In terms of public finances, the data was disappointing for August. Public sector net borrowing excluding banks rose to £6.753bn, up from £3.4bn, and the figure including banks rose by slightly less, to £5.889bn. There are increasing expectations that the OBR may lower its borrowing forecast in November, which could allow the Chancellor to increase spending in his upcoming budget, without having to raise income from other sources or make cuts elsewhere.

GDP figures at the end of the month were another source of disappointment for the UK. While there was no change to the Q2 q/q figure (0.4%), Q1 was revised down from 0.2% to just 0.1%. Furthermore, the Q2 y/y figure was revised downwards to 1.2% from 1.3%.

The Eurozone's Q2 y/y GDP figure was also revised lower, down from 2.2% to 2.1%. Meanwhile, US y/y GDP remained unchanged, at 4.2% evidencing the effects of President Trump's expansionary fiscal policy, and paved the way for the US Federal Reserve to action a rate rise at the end of September. Accompanying the move, the Fed's "dot plot" of member expectations for future policy rates suggested another rate hike may occur in 2018, and potentially another three in 2019.

Housing

The Halifax house prices measure showed a 0.1% m/m increase in August, rebounding from a negative value in July. The y/y measure showed a 3.7% increase, an uplift from 3.3% previously but lower than the 3.9% forecast. House.

Nationwide also showed a small rise in m/m house prices, up to 0.3%, whilst the y/y figure also increased by 0.1% to 2%.

Currency

Sterling opened the month at \$1.29 against the US Dollar and closed at \$1.30, with varied fluctuations throughout the period. Against the Euro, Sterling opened at €1.115 and closed at €1.125.

Forecast

Link Asset Services suggests that the next interest rate rise will be to 1% in the third quarter of 2019, with further rises of 25 basis points in Q2 2020, and Q4 2020. Capital Economics expect the next rate rise will be Q2 2019, followed by another rise in Q4 2019 and a further change in Q4 2020.

Bank Rate	NOW	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
Capital Economics	0.75%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%	1.75%	-

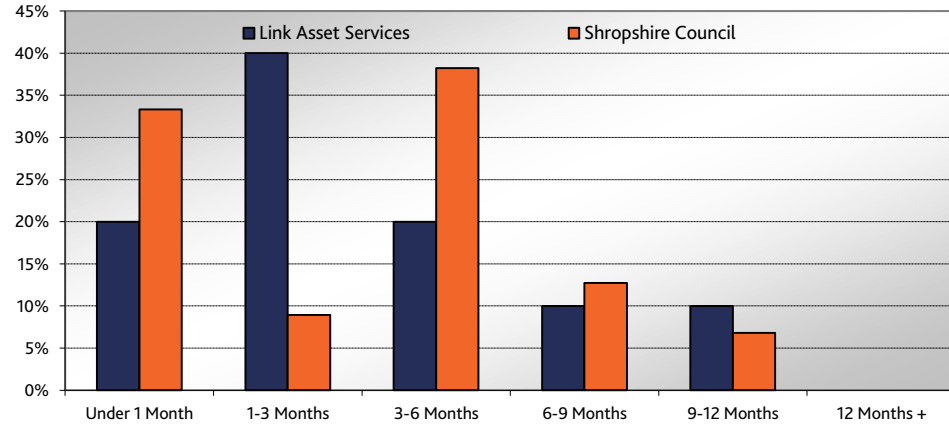
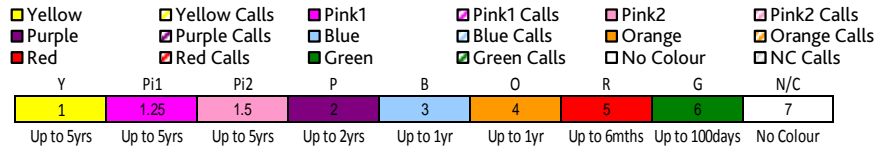
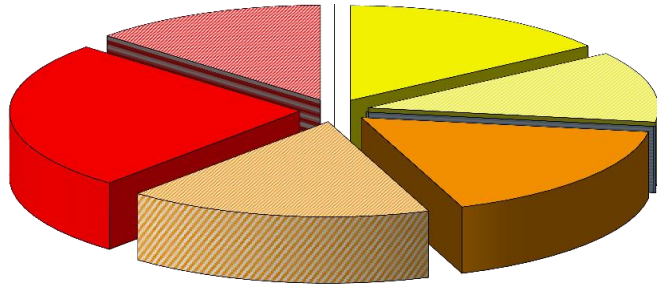
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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
HSBC UK Bank Plc (RFB)	20,000,000	1.05%		Call	AA-	0.000%
MMF Standard Life	8,630,000	0.67%		MMF	AAA	0.000%
MMF Insight	5,630,000	0.68%		MMF	AAA	0.000%
Goldman Sachs International Bank	5,000,000	0.96%	03/04/2018	03/10/2018	A	0.000%
Barclays Bank Plc (NRFB)	500,000	0.82%		Call32	A	0.005%
Telford & Wrekin Council	5,000,000	0.75%	22/08/2018	22/11/2018	AA	0.004%
Goldman Sachs International Bank	5,000,000	0.80%	07/06/2018	07/12/2018	A	0.010%
Santander UK Plc	15,000,000	0.85%		Call95	A	0.014%
Barclays Bank Plc (NRFB)	5,450,000	0.76%	16/07/2018	16/01/2019	A	0.016%
Coventry Building Society	5,000,000	0.69%	17/07/2018	17/01/2019	A	0.016%
Barclays Bank Plc (NRFB)	4,550,000	0.77%	17/07/2018	17/01/2019	A	0.016%
Lloyds Bank Plc (RFB)	5,000,000	0.75%	25/07/2018	25/01/2019	A+	0.017%
Nationwide Building Society	5,000,000	0.72%	01/08/2018	31/01/2019	A	0.018%
Slough Borough Council	5,000,000	0.74%	09/08/2018	11/02/2019	AA	0.009%
Lancashire County Council	5,000,000	0.98%	04/05/2018	16/04/2019	AA	0.013%
Lloyds Bank Plc (RFB)	5,000,000	1.00%	05/06/2018	05/06/2019	A+	0.037%
Lloyds Bank Plc (RFB)	5,000,000	1.00%	15/06/2018	14/06/2019	A+	0.038%
Lloyds Bank Plc (RFB)	5,000,000	1.00%	13/07/2018	12/07/2019	A+	0.042%
Bury Metropolitan Borough Council	3,000,000	1.05%	31/08/2018	30/08/2019	AA	0.022%
Total Investments	£117,760,000	0.86%				0.012%

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Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **3.56**

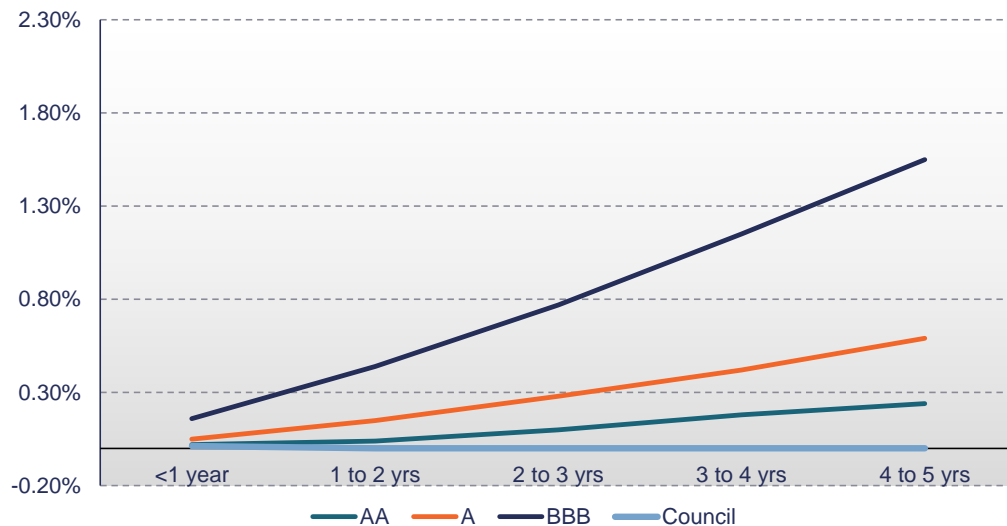
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Colour		Amount of		% of Call		Excluding Calls/MMFs/USDBFs			
	% of Portfolio	Amount	in Calls	Colour in Calls	in Portfolio	WARoR	WAM	WAM at Execution	WAM	WAM at Execution
Yellow	27.39%	£32,260,000	44.20%	£14,260,000	12.11%	0.78%	91	131	163	234
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	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	33.97%	£40,000,000	50.00%	£20,000,000	16.98%	0.99%	113	160	227	319
Red	38.64%	£45,500,000	34.07%	£15,500,000	13.16%	0.81%	89	153	87	184
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%	£117,760,000	42.26%	£49,760,000	42.26%	0.86%	98	149	148	237

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Investment Risk and Rating Exposure

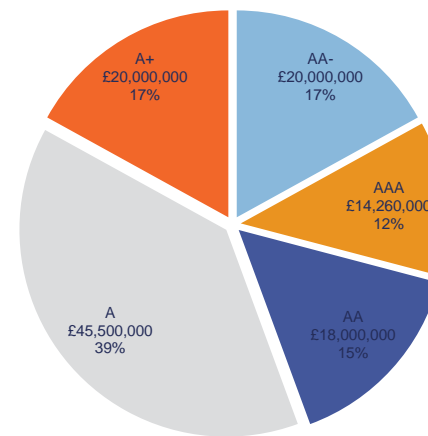
Investment Risk Vs. Rating Categories



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	0.02%	0.04%	0.10%	0.18%	0.24%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%
Council	0.012%	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.

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Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
25/09/2018	1641	Danske A/S	Denmark	Outlook on the Long Term Rating changed to Negative from Stable

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
21/09/2018	1640	Danske A/S	Denmark	Outlook on the Long Term Rating changed to Negative from Stable

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
21/09/2018	1639	Australia Sovereign Rating	Australia	Outlook on the Long Term Rating changed to Stable from Negative
26/09/2018	1642	Danske A/S	Denmark	Outlook on the Long Term Rating changed to Negative from Positive

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