



Shropshire Council

Monthly Investment Analysis Review

June 2019

Monthly Economic Summary

General Economy

June's economic data began with the May Markit/CIPS Manufacturing PMI figure. This fell to 49.4 from 53.1 the previous month, which was the steepest contraction since February 2013. The drivers of the decline were firms continuing to run down their excess inventory after stockpiling for a no-deal Brexit and the impact of the global economic slowdown. This was then compounded by Construction PMI also dropping into contraction territory (ie a reading below 50), falling to 48.6 from 50.5. The Services PMI figure provided a small saving grace, rising to 51 from 50.4. This left the Composite figure at 50.9, which indicated minimal levels of growth in the UK economy.

The UK trade deficit narrowed to £2.74bn in April, falling from an upwardly revised £6.15bn the previous month. Exports declined 4.3% to £53.47bn, but imports declined at a faster rate of 9.3% to £56.21bn, causing the lowest trade deficit since last September. Meanwhile, the UK's economy's growth rate fell; the 3m/3m rolling average GDP growth figure fell from 0.5% to 0.3% in the 3 months to April. The economy slowed in April mainly due to a large fall in car production, with Brexit uncertainty leading to planned shutdowns in automotive factories.

The Bank of England's Monetary Policy Committee (MPC) voted unanimously to keep interest rates on hold at 0.75% in June. The tone of the meeting was far more dovish than in May, as the Bank slashed its growth forecast for the three months to June to zero, amid a broader deterioration in the domestic economy allied with weaker overall global conditions.

Unemployment maintained its 3.8% rate in the three months to April, its lowest level since 1974. Meanwhile, the nominal employment figure increased by 32,000 to a record high of 32.75 million. The tight labour market showed in wage growth figures, as average earnings excluding bonuses came in at 3.4%, up from 3.3% previously. However, when bonuses were accounted for, the figure dropped to 3.1%.

CPI inflation was in line with the Bank of England's 2% target in May, decreasing from 2.1 % y/y previously. Cost pressures in factories fell to a three-year low and travel prices fell back after their Easter highs in April. The data added to market views that the Bank of England has no urgency to pursue its stated policy of gradually raising interest rates. The Core CPI figure (which strips out the more volatile components of inflation) fell to 1.7%, the lowest annual rate since January 2017, signalling that underlying inflationary pressures are contained at present. The m/m CPI figure fell to 0.3% from 0.6% in the previous month.

Retail sales fell by 0.5% in May m/m, following on from the flat reading of April. At the annual level, sales decreased to 2.3% y/y from 5.1% in April. Despite the decreasing trend, consumer spending has generally been a bright spot for the UK economy, contrasting with falling investment by businesses.

British banks approved 65,409 mortgages for new house purchases in May 2019, which was below the 66,045 figure seen in the previous month. In addition, approvals of loans secured on dwellings for re-mortgaging fell to 46,706 in May from 48,945 previously. Meanwhile, loans for other purposes increasing slightly to 14,748 from 14,425 previously.

May's Confederation for British Industry (CBI) and GfK surveys produced negative results; the CBI's Distributive Trades Survey (covering retailing) fell to -42 from a previous figure of -27, and its Industrial Trends survey also showed a drop, from -10 to -15. Following the trend of these releases, the GfK Consumer Confidence reading showed a fall from -10 to -13..

The government's public finances figures showed a deficit of £4.46bn in May, showing a surprisingly large difference to the figure for April of £6.15bn which was significantly revised from the initial reading of £4.97bn. Excluding state-controlled banks, the deficit came in at £5.1bn, a 23.1% increase from the previous year. The UK's government debt increased by £20.5bn to £1.8trn as at the end of May, equivalent to 82.9% of GDP.

In the USA, Nonfarm Payrolls came in at 75,000 in May, down from 224,000 in April, which suggests the labour market is slowing in the US economy, combined with earnings remaining at 3.1% y/y and 0.2% m/m. While the unemployment rate dropped to 3.6% from 3.8%, this was more related to a fall in the overall workforce rather than a product of job gains. Elsewhere, the second estimate of annualised US GDP growth was unrevised, at 3.1%, remaining above Q4 2018's 2.2% figure, but slightly short of forecasts. Meanwhile, in the Eurozone, GDP growth remained at 0.4% in Q1 and 1.2% year-on-year, as the effects of the global slowdown, particularly in China, have taken hold. Unemployment fell to 7.5% from 7.6% last month, the lowest jobless rate since August 2008.

Housing

According to Nationwide, house prices increased by 0.6% y/y in May but fell by 0.2% on the month, both figures were below estimates. Meanwhile, Halifax's 3-month y/y figure increased slightly to 5.2% from 5% previously, but below estimates of a 5.4% jump. On the month, prices decreased from a figure of +1.1% to +0.5%, which was above market expectations.

Currency

Over the month of June the pound slightly rose against the dollar, from \$1.265 to \$1.269. It was a different story against the euro, beginning at €1.13 and ending at €1.12.

Forecast

Link Asset Services currently forecast the next rate rise to come in Q3 2020. This forecast is scheduled to be reviewed following the release of the Bank of England Quarterly Inflation Report in August. Capital Economics have cut back their forecasts, not predicting a rate rise until Q4 2020.

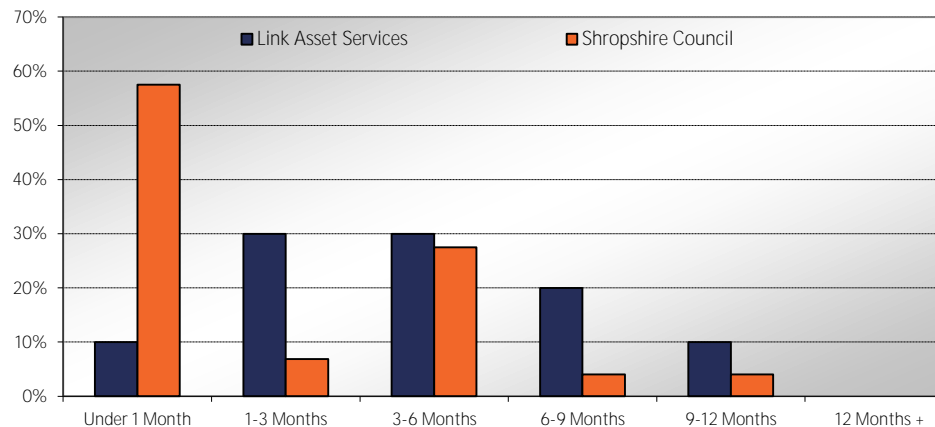
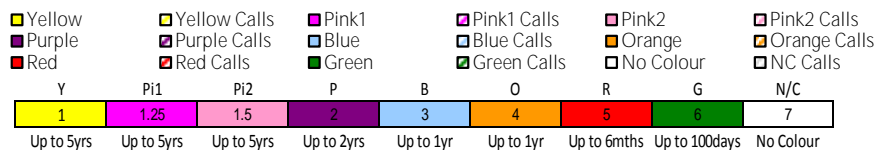
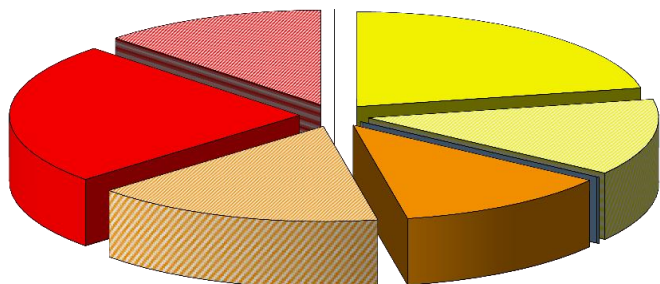
Bank Rate							
	Now	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Link Asset Services	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%
Capital Economics	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%

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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Insight	1,100,000	0.75%		MMF	AAA	0.000%
MMF Aberdeen Standard Investments	15,000,000	0.77%		MMF	AAA	0.000%
HSBC UK Bank Plc (RFB)	20,000,000	1.05%		Call	AA-	0.000%
Nationwide Building Society	5,000,000	1.05%	08/01/2019	08/07/2019	A	0.001%
Lloyds Bank Plc (RFB)	5,000,000	1.00%	13/07/2018	12/07/2019	A+	0.002%
Thurrock Borough Council	5,000,000	0.98%	16/01/2019	16/07/2019	AA	0.001%
Barclays Bank UK PLC (RFB)	5,450,000	0.96%	16/01/2019	16/07/2019	A	0.002%
Coventry Building Society	5,000,000	0.95%	17/01/2019	17/07/2019	A-	0.002%
Barclays Bank UK PLC (RFB)	4,550,000	0.95%	17/01/2019	17/07/2019	A	0.002%
Lloyds Bank Plc (RFB)	5,000,000	1.00%	25/01/2019	25/07/2019	A+	0.004%
Barclays Bank UK PLC (RFB)	500,000	0.82%		Call32	A	0.005%
Thurrock Borough Council	5,000,000	1.00%	11/02/2019	12/08/2019	AA	0.003%
Bury Metropolitan Borough Council	3,000,000	1.05%	31/08/2018	30/08/2019	AA	0.004%
Santander UK Plc	15,000,000	0.85%		Call95	A	0.014%
Nationwide Building Society	2,000,000	0.82%	15/04/2019	15/10/2019	A	0.015%
West Dunbartonshire Council	4,000,000	0.90%	18/04/2019	18/10/2019	AA	0.007%
West Dunbartonshire Council	5,000,000	0.90%	23/04/2019	23/10/2019	AA	0.008%
Nationwide Building Society	3,000,000	2.09%	15/05/2019	15/11/2019	A	0.020%
Goldman Sachs International Bank	5,000,000	0.93%	07/06/2019	06/12/2019	A	0.023%
Falkirk Council	5,000,000	1.09%	15/02/2019	20/01/2020	AA	0.013%
Lloyds Bank Plc (RFB)	5,000,000	1.25%	05/06/2019	05/06/2020	A+	0.049%
Total Investments	£123,600,000	0.98%				0.007%

Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **3.32**

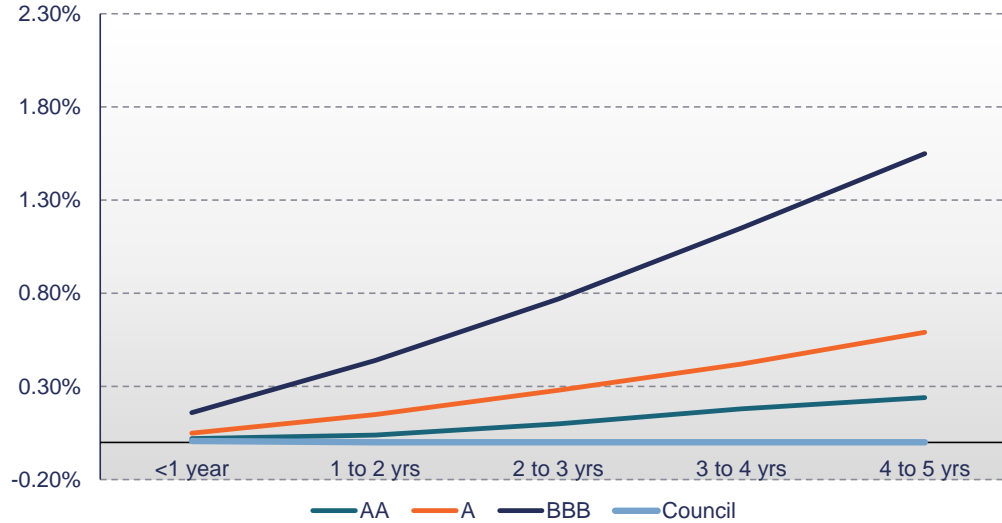
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs	
									WAM	WAM at Execution
Yellow	34.87%	£43,100,000	37.35%	£16,100,000	13.03%	0.90%	58	145	93	231
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	28.32%	£35,000,000	57.14%	£20,000,000	16.18%	1.06%	54	130	126	304
Red	36.81%	£45,500,000	34.07%	£15,500,000	12.54%	1.00%	69	151	57	182
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
Total	100.00%	£123,600,000	41.75%	£51,600,000	41.75%	0.98%	61	143	85	226

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Investment Risk and Rating Exposure

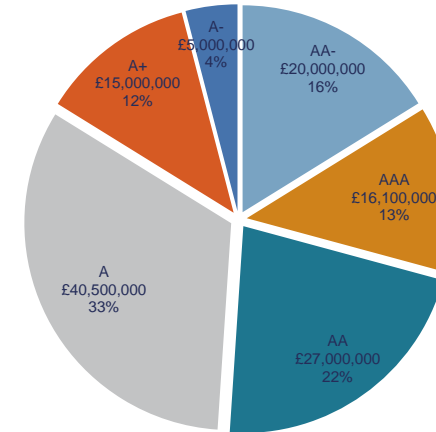
Investment Risk Vs. Rating Categories



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	0.007%	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
03/06/2019	1685	Clydesdale Bank Plc	United Kingdom	The Long Term Rating was upgraded to 'A-' from 'BBB+' and maintained on Negative Watch.
10/06/2019	1686	Deutsche Bank AG	Germany	The Long Term Rating was downgraded to 'BBB' from 'BBB+' and the Viability Rating was downgraded to 'bbb' from 'bbb+'. The Outlook on the Long Term Rating was changed to Evolving from Negative.

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
28/06/2019	1687	Co-operative Bank PLC (The)	United Kingdom	The Long Term Rating was upgraded to 'B3' from 'Caa1' and the Outlook was changed to Positive from Stable.

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
28/06/2019	1688	ABN AMRO Bank N.V.	Netherlands	The Outlook on the Long Term Rating was changed to Stable from Positive.
28/06/2019	1688	Cooperatieve Rabobank U.A.	Netherlands	The Outlook on the Long Term Rating was changed to Stable from Positive.

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