



City Of London Corporation

Monthly Investment Analysis Review

July 2018

Monthly Economic Summary

General Economy

The data releases for the month began with June's Markit/CIPS Manufacturing PMI, maintained its headline balance of 54.4. The sector continues to show a stronger performance after a slow Q1, but was expected to be slightly healthier. Construction PMI, however, maintained its recovery from the dent caused by the Beast from the East by increasing from 52.5 to 53.1 in June - but worries about Brexit have caused some projects to be put on hold. Services PMI also showed the economy's slow Q1 was temporary as the rise in the headline business activity index rose far above expectations from 54.0 to 55.1, well above the forecast of 54.0. This provided further evidence that the economy's slow start to 2018 was only temporary and can be predominantly chalked up to the weather. Furthermore, the surveys suggest that solid growth in the services sector should be sustained in the coming months.

British consumer price inflation (CPI) was lower than expected in June, holding at 2.4% despite forecasts of 2.6%. This is despite the rises in fuel and utility prices, offset by a fall in the core rate to 1.9%. Oil prices should eventually fall back down later in the year, and CPI should also fall as the impact of a weaker pound continues to wane.

June's public finances figures were strong overall; the deficit in June stood at £5.39bn, compared with £6.24bn a year ago, however a Reuters poll had predicted £5bn this time around. As of this financial year, the deficit stands at £16.8bn, 24.4% lower than for the same period in 2017, but it must be noted that early in the financial year it is difficult to draw many reliable conclusions. Public debt, excluding nationalised banks, stood at £1.792trn, 85.2% of GDP. This is down from 86.2% in June, but still double the figure from before the crisis.

The final reading of first quarter GDP growth saw an upward revision to 0.2% from initial estimates of 0.1%, following underlying revisions to construction output.. The yearly figure for GDP growth up to May was 1.5%. Moreover, May's monthly GDP also showed a strong 0.3%, up from April's 0.2%. and evidencing further that the Q1 weather-induced figures are behind us.

July's data also showed that British workers' wages rose at the slowest rate in six months during the three month period to May, despite our continually decreasing unemployment rate. Unemployment may be lower than ever at 4.2%, but average weekly earnings rose by just 2.5% in said three month period, down from 2.6% in the previous period, and pay growth excluding bonuses slowed to 2.7%.

Q2's retail sales growth grew by the most it has since the first quarter of 2004. Despite retail sales in June alone were down by 0.5% from May; however the quarterly figure was 2.1% higher than the first quarter. June's figure can be said to be poor partly because of the World Cup keeping people out of the shops. The figures as a whole contrast with relatively soft wage and inflation data, and the ONS said the strong retail sector data would probably add 0.1% to Q2 GDP growth.

Over in the Eurozone, Q2 GDP lagged lower than expected at just 0.3% compared to forecasts of 0.4%, and the Y/Y figure came in at 2.1% Y/Y. These are only preliminary figures but the data points to a slight slowdown in the Eurozone, which is not good for both the bloc itself and its trading partners. The ECB held its interest rates at 0% still, remaining at a -0.4% deposit rate as well, with Mario Draghi implying that a rate rise is likely towards the end of the next year, as the single currency's economy is still too fragile to accommodate a rate rise yet. Inflation went slightly up to 2.1% for July, and the unemployment rate very marginally decreased to 8.3%, a level which the EU will still not be comfortable with.

In the USA, unemployment stayed at a low level, but slightly rose to 4% from 3.8%, with non-farm payrolls decreasing to 213,000. President Trump will certainly be extremely happy with US GDP, hitting 4.1% in Q2, compared to 2% previously, a massive increase.

Housing

Nationwide revealed that house prices rose by 2.5% y/y in July, up by 0.5%. On a monthly basis, house prices rose by 0.6%, well ahead of a 0.2% Reuters poll. Nationwide continue to expect house prices to rise by around one per cent over the course of 2018, but acknowledge it will depend on the broader economic conditions, particularly subdued economic activity and ongoing pressure on household spending and real wages.

Currency

Sterling opened the month at \$1.316 against the US Dollar and closed the month at \$1.312. Against the Euro, Sterling opened at €1.131 and closed at €1.123.

Forecast

Neither Link Asset Services (LAS) nor Capital Economics made changes to their bank rate forecasts during July. LAS suggests that the next interest rate rise will be to 0.75% in the final quarter of this year, with further rises of 25 basis points in Q3 2019, Q2 2020 and Q4 2020. Capital Economics expect the next rate rise to 0.75% will be in August, with further rises of 25 basis points in Q4 2018, Q2 2019, Q4 2019 and Q4 2020.

Bank Rate												
	NOW	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	0.50%	0.50%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
Capital Economics	0.50%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.50%	1.50%	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
MMF CCLA	10,000,000	0.56%		MMF	AAA	0.000%
USDBF Federated Sterling Cash Plus Fund	5,000,000	0.47%		USDBF	AAA	0.000%
MMF Federated Investors (UK)	12,900,000	0.57%		MMF	AAA	0.000%
MMF Invesco	43,800,000	0.56%		MMF	AAA	0.000%
Lloyds Bank Plc (RFB)	15,600,000	0.40%		Call	A+	0.000%
Lloyds Bank Plc (RFB)	22,600,000	0.57%		Call	A+	0.000%
USDBF Payden Sterling Reserve Fund	55,000,000	0.29%		USDBF	AAA	0.000%
Santander UK Plc	100,000,000	0.60%		Call	A	0.000%
USDBF Standard Life Short Duration Cash Fund	5,000,000	0.50%		USDBF	AAA	0.000%
MMF Standard Life	10,300,000	0.56%		MMF	AAA	0.000%
Lloyds Bank Plc (RFB)	15,000,000	0.75%	03/11/2017	03/08/2018	A+	0.000%
Birmingham City Council	20,000,000	0.77%	27/04/2018	17/08/2018	AA	0.001%
Nationwide Building Society	10,000,000	0.70%	20/04/2018	20/08/2018	A	0.003%
Barclays Bank Plc (NRFB)	25,000,000	0.76%	29/09/2017	28/09/2018	A	0.009%
Goldman Sachs International Bank	20,000,000	0.95%	26/09/2017	01/10/2018	A	0.009%
Australia and New Zealand Banking Group Ltd	15,000,000	0.60%	03/01/2018	03/10/2018	AA-	0.004%
Barclays Bank Plc (NRFB)	36,000,000	0.77%	04/10/2017	03/10/2018	A	0.009%
Nationwide Building Society	25,000,000	0.70%	13/07/2018	22/10/2018	A	0.012%
Lloyds Bank Plc (RFB)	10,500,000	0.65%	23/04/2018	23/10/2018	A+	0.012%
National Australia Bank Ltd	10,000,000	0.81%	04/04/2018	05/11/2018	AA-	0.007%
Leeds Building Society	10,000,000	0.64%	07/06/2018	07/11/2018	A-	0.015%
Lloyds Bank Plc (RFB)	15,000,000	0.75%	01/06/2018	03/12/2018	A+	0.018%
National Australia Bank Ltd	15,000,000	0.84%	04/04/2018	18/12/2018	AA-	0.009%
Coventry Building Society	20,000,000	0.70%	02/01/2018	02/01/2019	A	0.023%
Goldman Sachs International Bank	20,000,000	0.95%	08/01/2018	08/01/2019	A	0.024%
Lloyds Bank Plc (RFB)	15,000,000	0.82%	02/05/2018	23/01/2019	A+	0.026%
Northamptonshire County Council	20,000,000	0.73%	31/01/2018	30/01/2019	AA	0.012%
Barclays Bank Plc (NRFB)	14,000,000	0.93%	25/04/2018	01/02/2019	A	0.027%
Goldman Sachs International Bank	15,000,000	1.01%	18/05/2018	18/02/2019	A	0.030%
London Borough of Southwark	20,000,000	1.10%	19/03/2018	28/03/2019	AA	0.016%
Goldman Sachs International Bank	10,000,000	1.20%	29/03/2018	29/03/2019	A	0.036%
Skipton Building Society	20,000,000	1.00%	23/04/2018	18/04/2019	BBB+	0.113%
Yorkshire Building Society	20,000,000	0.88%	27/04/2018	26/04/2019	A-	0.040%
Barclays Bank Plc (NRFB)	25,000,000	1.07%	17/04/2018	01/05/2019	A	0.040%
Leeds Building Society	10,000,000	0.86%	16/05/2018	16/05/2019	A-	0.043%

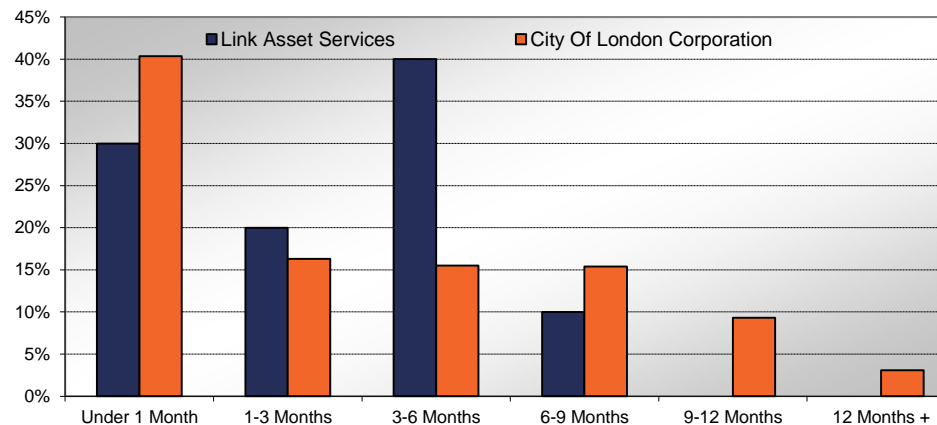
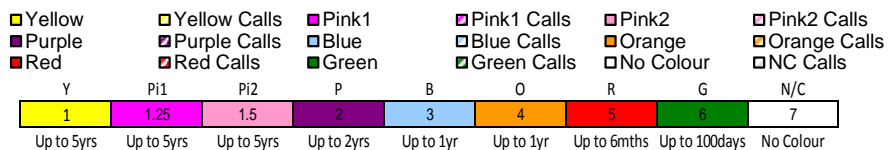
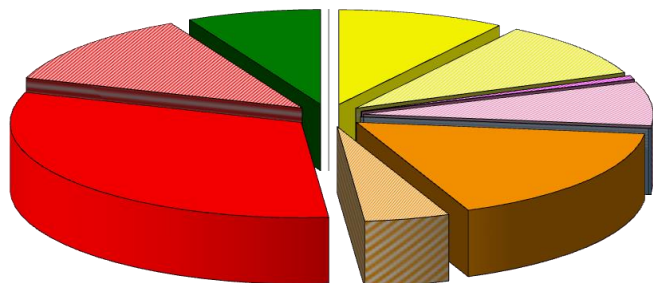
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Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Goldman Sachs International Bank	15,000,000	1.13%	18/05/2018	18/05/2019	A	0.043%
Lloyds Bank Plc (RFB)	15,000,000	1.00%	08/06/2018	10/06/2019	A+	0.046%
Goldman Sachs International Bank	20,000,000	1.12%	02/07/2018	02/07/2019	A	0.050%
Lloyds Bank Plc (RFB)	15,000,000	0.82%	13/07/2018	15/07/2019	A+	0.052%
Australia and New Zealand Banking Group Ltd	10,000,000	1.05%	09/04/2018	09/10/2019	AA-	0.028%
Lancashire County Council	15,000,000	1.27%	14/05/2018	16/12/2019	AA	0.031%
Borrower - Funds	Principal (£)	Interest Rate	Start Date	Maturity Date		
L&G UTM CLIENT ACC (UTM)	50,000,000	0.29%				
ROYAL LONDON UT MGRS LTD DEALING A/C	50,000,000	0.63%				
Total Investments	£905,700,000	0.72%				
Total Investments - excluding Funds	£805,700,000	0.75%				0.017%
Total Investments - Funds Only	£100,000,000	0.46%				

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Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = 3.82

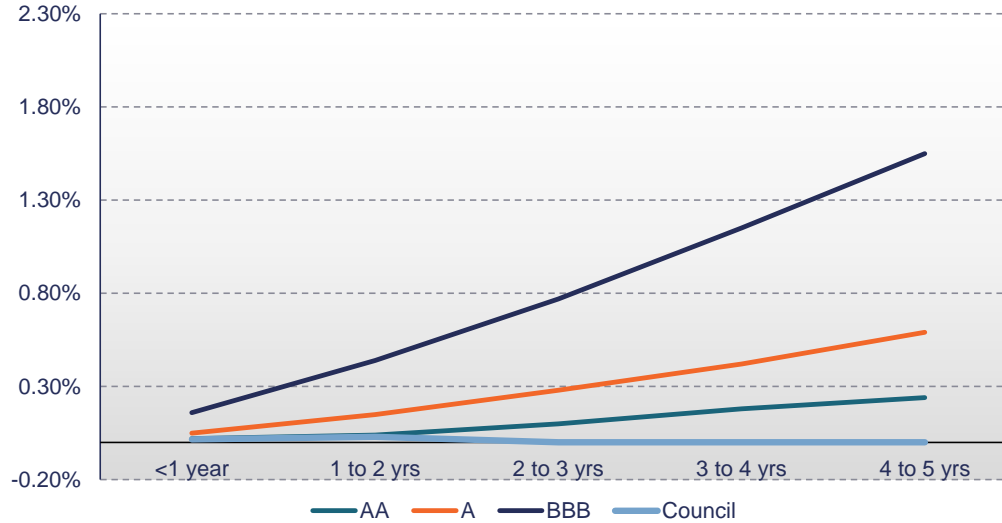
WARoR = Weighted Average Rate of Return
 WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour		% of Call		Excluding Calls/MMFs/USDBFs			
			in Calls	Amount of Colour in Calls	in Portfolio	WARoR	WAM	WAM at Execution	WAM	WAM at Execution
Yellow	18.87%	£152,000,000	50.66%	£77,000,000	9.56%	0.75%	108	169	218	343
Pink1	0.62%	£5,000,000	100.00%	£5,000,000	0.62%	0.50%	0	0	0	0
Pink2	7.45%	£60,000,000	100.00%	£60,000,000	7.45%	0.31%	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	21.56%	£173,700,000	21.99%	£38,200,000	4.74%	0.74%	137	227	175	291
Red	44.06%	£355,000,000	28.17%	£100,000,000	12.41%	0.82%	111	231	155	321
Green	7.45%	£60,000,000	0.00%	£0	0.00%	0.88%	241	328	241	328
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£805,700,000	34.78%	£280,200,000	34.78%	0.75%	117	207	179	317

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Investment Risk and Rating Exposure

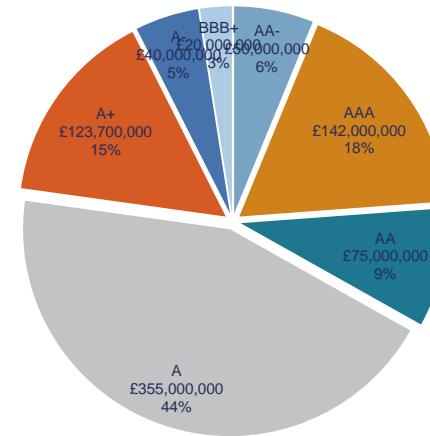
Investment Risk Vs. Rating Categories



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	0.016%	0.030%	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
09/07/2018	1626	ING Bank N.V.	Netherlands	Outlook on the Long Term Rating changed to Positive from Stable

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
06/07/2018	1625	Credit Agricole Corporate and Investment Bank	France	Outlook on the Long Term Rating changed to Positive from Stable
06/07/2018	1625	Credit Agricole S.A.	France	Outlook on the Long Term Rating changed to Positive from Stable
16/07/2018	1627	Qatar Sovereign	Qatar	Outlook on the Sovereign Rating changed to Stable from Negative
16/07/2018	1628	Qatar Natonal Bank	Qatar	Outlook on the Long Term Rating changed to Stable from Negative
17/07/2018	1629	NatWest Markets Plc (NRFB)	UK	Outlook on the Long Term Rating changed to Positive from Stable
17/07/2018	1629	National Westminster Bank PLC (RFB)	UK	Outlook on the Long Term Rating changed to Positive from Stable
17/07/2018	1629	National Westminster Bank PLC (RFB)	UK	Long Term Rating upgraded to 'Baa2' from 'Baa3', Outlook changed to Positive from Stable. Short Term Rating upgraded to 'P-2' from 'P-3'
17/07/2018	1629	The Royal Bank of Scotland Plc (RFB)	UK	Outlook on the Long Term Rating changed to Positive from Stable
17/07/2018	1630	Bank of Montreal	Canada	Long Term Rating upgraded to 'Aa2' from 'A1', Outlook changed to Stable from Negative
17/07/2018	1630	Bank of Nova Scotia	Canada	Long Term Rating upgraded to 'Aa2' from 'A1', Outlook changed to Stable from Negative
17/07/2018	1630	Canadian Imperial Bank of Commerce	Canada	Long Term Rating upgraded to 'Aa2' from 'A1', Outlook changed to Stable from Negative
17/07/2018	1630	National Bank of Canada	Canada	Long Term Rating upgraded to 'Aa3' from 'A1', Outlook changed to Stable from Negative
17/07/2018	1630	Royal Bank of Canada	Canada	Long Term Rating upgraded to 'Aa2' from 'A1', Outlook changed to Stable from Negative
17/07/2018	1630	Toronto-Dominion Bank	Canada	Long Term Rating upgraded to 'Aa1' from 'Aa2', Outlook changed to Stable from Negative

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
05/07/2018	1624	BNP Paribas France	France	Outlook on the Long Term Rating changed to Positive from Stable
05/07/2018	1624	BNP Paribas Fortis	Belgium	Outlook on the Long Term Rating changed to Positive from Stable
31/07/2018	1631	KBC Bank N.V.	Belgium	Long Term Rating upgraded to 'A+' from 'A', Outlook changed to Stable from Positive. Colour based on Ratings changed to 'Orange' from 'Red'

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