



City Of London Corporation

Monthly Investment Analysis Review

December 2018

Monthly Economic Summary

General Economy

December began with the Markit/CIPS Manufacturing Purchasing Managers Index (PMI) rising to 53.1 from 51.1, which had been the weakest since the referendum. On a more positive note, the Construction PMI reading rose to a 4 month high of 53.4, spurred by house-building and commercial work. This confounded the consensus forecast of a fall to 52.5. Closing out the set, the UK's dominant service sector's PMI experienced a shock slide and dropped to 50.4, the weakest since the 2016 Brexit vote and below all forecasts. Being the dominant sector, services dragged the Composite PMI figure down to 50.8, meaning overall activity was only just about maintaining growth.

GDP growth was unchanged at 1.5% y/y, with the m/m figure rising slightly to 0.1%, but both were below the forecasted increases. Alongside this, the GDP 3-month average growth to October dropped from 0.6% to 0.4%, emphasising that the impact of the positive Summer, which had been supported by good weather and one-off factors such as the World Cup, was now fading. Elsewhere, data shows that the UK's trade deficit rose above forecasts to £3.3bn in October, with the goods trade deficit also rising to £11.87bn.

Unemployment remained constant at 4.1% in the three months to October. With unemployment close to its lowest level since the 1970s, employers have begun to raise pay for staff more quickly. Average weekly earnings including bonuses rose by 3.3% on the year, the biggest rise since the three months to July 2008. This is the same figure recorded as the total earnings excluding bonuses for the three months to October. This allowed "real wages", which discounts the impact of inflation, to continue to grow, as inflation fell to 2.3% y/y.

British retail sales surged by much more than expected in November, with the m/m figure coming in at 1.2%, up from the previous figure of -0.4%. The y/y figure came in at 3.6%, up from the previous figure of 2.4%. However, the Confederation of British Industry (CBI) data from the month was less bright, with its Distributive Trades survey falling by much more than expected, from 19 to -13. On a brighter note, mortgage approvals improved with the first year-on-year rise since September 2017, despite the fall from the figure reported in November. The GfK consumer confidence reading fell from -13 to -14.

The UK recorded a lower than expected budget deficit in November. It fell to £7.2bn and for the first 8 months of the financial year, it stands at just under £33bn (30% lower than the same point in 2017). This is the lowest November borrowing for 14 years. Tax revenues remained strong but the government spent more than it received in tax and other income. National debt as a percentage of GDP stood at 83.9%, or £1.8 trillion.

Also towards the end of November, the Bank of England's Monetary Policy Committee (MPC) unanimously voted to maintain the Bank Rate at 0.75%. This was widely expected by market participants, given the uncertainty over the Brexit position.

In the US, the Nonfarm Payroll figure rose by 155,000, below the estimate of 200,000 and the previous downwardly revised 237,000. The final estimate of Q3 GDP was 3.4% trimmed slightly from the previous estimate of 3.5% but still above the economic growth potential of 2%. The Federal Reserve went on to raise the Federal Funds Rate to 2.25-2.5%, continuing the tightening cycle.

In the Eurozone, the European Central Bank (ECB) chose to continue to keep interest rates at 0%, but the meeting spelt the end of its bond-buying programme as first announced in June. PMI figures improved from the previous month, but the final estimate of Q3 GDP came in at 0.2% q/q and 1.6% y/y, both decreases from Q2's figures. Unemployment in the bloc remained at 8.1% in October 2018.

Housing

According to Nationwide, British house prices rose at their slowest pace in more than 6 years in December as Brexit uncertainty further weighed on the housing market. Prices rose by 0.5% y/y, down from 1.9% in November, and prices fell by 0.7% from November, the biggest monthly fall since July 2012.

Meanwhile, the Halifax index showed a fall of 1.4% m/m, down from 0.7% rise the previous month and lower than analyst expectations of a 0.2% gain. The y/y figure fell to 0.3% from 1.5%, aligning with Nationwide's picture of a slowing housing market.

Currency

Sterling opened the month at \$1.28 against the US Dollar and closed at \$1.27. Against the Euro, Sterling opened at €1.12 and closed at €1.11.

Forecast

There was no update to our forecasts in December. To recap, Link Asset Services suggests that the next interest rate rise will be to 1.00% in the second quarter of 2019, with further rises of 25 basis points in Q1 2020 and Q4 2020, eventually reaching 2.00% in March 2022. Capital Economics expect the next rate rise will be Q2 2019, followed by another rise in Q4 2019 and reaching 2.00% in Q4 2020.

Bank Rate										
	Now	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%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%
Capital Economics	0.75%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	2.00%	2.00%	-

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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
USDBF Aberdeen Standard Investments	5,000,000	0.76%		USDBF	AAA	0.000%
MMF Aberdeen Standard Investments	59,700,000	0.74%		MMF	AAA	0.000%
MMF CCLA	10,000,000	0.75%		MMF	AAA	0.000%
MMF Deutsche	54,400,000	0.73%		MMF	AAA	0.000%
USDBF Federated Sterling Cash Plus Fund	5,000,000	1.00%		USDBF	AAA	0.000%
MMF Federated Investors (UK)	50,800,000	0.75%		MMF	AAA	0.000%
MMF Invesco	60,500,000	0.71%		MMF	AAA	0.000%
Lloyds Bank Plc (RFB)	19,700,000	0.65%		Call	A+	0.000%
USDBF Payden Sterling Reserve Fund	55,000,000	0.23%		USDBF	AAA	0.000%
Coventry Building Society	20,000,000	0.70%	02/01/2018	02/01/2019	A	0.000%
Nationwide Building Society	10,100,000	0.75%	04/09/2018	04/01/2019	A	0.001%
Goldman Sachs International Bank	20,000,000	0.95%	08/01/2018	08/01/2019	A	0.001%
Lloyds Bank Plc (RFB)	15,000,000	0.82%	02/05/2018	23/01/2019	A+	0.003%
Northamptonshire County Council	20,000,000	0.73%	31/01/2018	30/01/2019	AA	0.002%
Barclays Bank Plc (NRFB)	14,000,000	0.93%	25/04/2018	01/02/2019	A	0.005%
Lloyds Bank Plc (RFB)	22,600,000	0.75%		Call32	A+	0.005%
Goldman Sachs International Bank	15,000,000	1.01%	18/05/2018	18/02/2019	A	0.007%
London Borough of Southwark	20,000,000	1.10%	19/03/2018	28/03/2019	AA	0.006%
Goldman Sachs International Bank	10,000,000	1.20%	29/03/2018	29/03/2019	A	0.013%
Santander UK Plc	20,000,000	0.90%		Call95	A	0.014%
Skipton Building Society	20,000,000	1.00%	23/04/2018	18/04/2019	BBB+	0.047%
Yorkshire Building Society	20,000,000	0.88%	27/04/2018	26/04/2019	A-	0.017%
Barclays Bank Plc (NRFB)	25,000,000	1.07%	17/04/2018	01/05/2019	A	0.018%
Leeds Building Society	10,000,000	0.86%	16/05/2018	16/05/2019	A-	0.020%
Goldman Sachs International Bank	15,000,000	1.13%	18/05/2018	18/05/2019	A	0.020%
Lloyds Bank Plc (RFB)	15,000,000	1.00%	08/06/2018	10/06/2019	A+	0.024%
Santander UK Plc	30,000,000	1.00%		Call180	A	0.027%
Goldman Sachs International Bank	20,000,000	1.12%	02/07/2018	02/07/2019	A	0.027%
Lloyds Bank Plc (RFB)	15,000,000	0.82%	13/07/2018	15/07/2019	A+	0.029%
Australia and New Zealand Banking Group Ltd	10,000,000	1.05%	09/04/2018	09/10/2019	AA-	0.019%
Goldman Sachs International Bank	20,000,000	1.32%	02/11/2018	07/11/2019	A	0.046%
Lancashire County Council	15,000,000	1.27%	14/05/2018	16/12/2019	AA	0.024%
Santander UK Plc	50,000,000	1.15%		Call365	A	0.054%
Borrower - Funds	Principal (£)	Interest Rate	Start Date	Maturity Date		
L&G UTM CLIENT ACC (UTM)	50,000,000	0.27%				

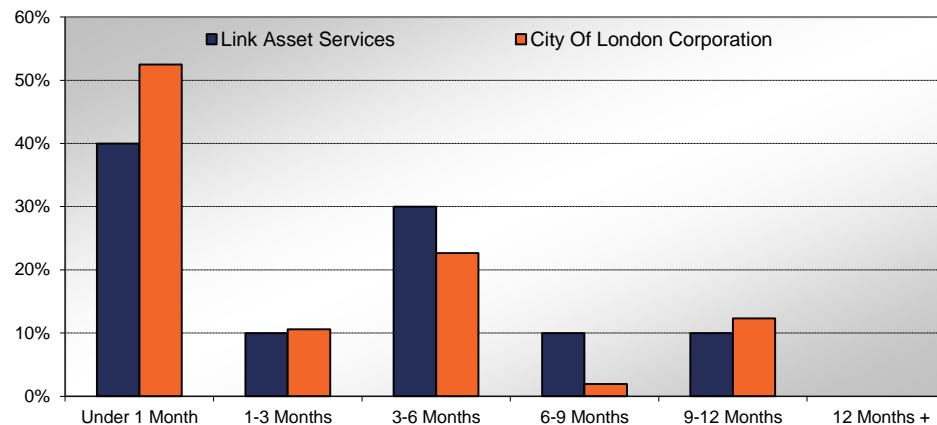
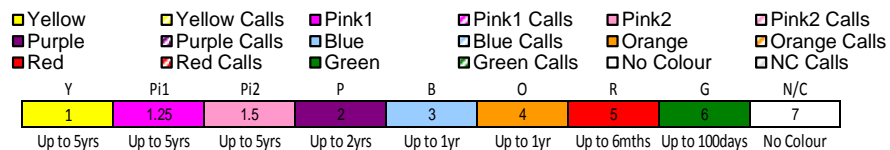
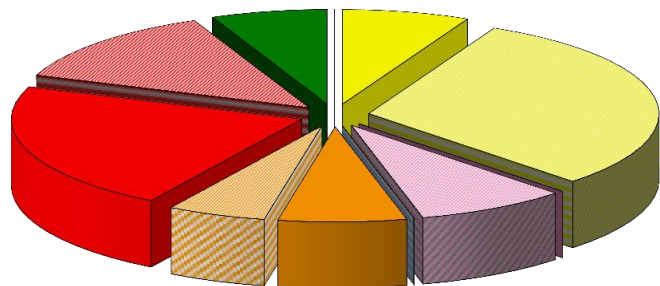
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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
ROYAL LONDON UT MGRS LTD DEALING A/C	50,000,000	0.01%				
Total Investments	£871,800,000					
Total Investments - excluding Funds	£771,800,000	0.85%				0.012%
Total Investments - Funds Only	£100,000,000	0.14%				

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Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **3.14**

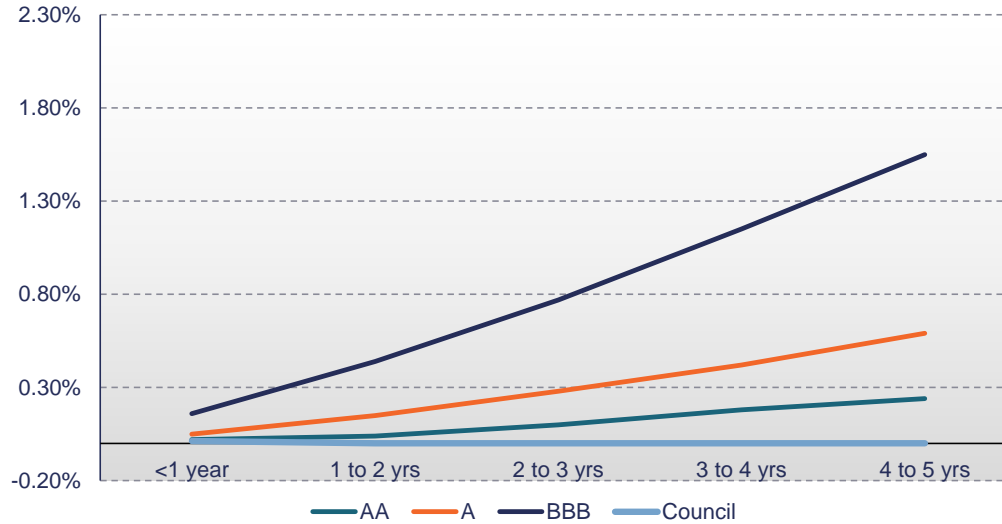
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	37.63%	£290,400,000	81.06%	£235,400,000	30.50%	0.78%	26	81	138	427
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	8.42%	£65,000,000	100.00%	£65,000,000	8.42%	0.33%	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	12.61%	£97,300,000	43.47%	£42,300,000	5.48%	0.82%	95	218	155	372
Red	34.87%	£269,100,000	37.16%	£100,000,000	12.96%	1.04%	159	308	102	338
Green	6.48%	£50,000,000	0.00%	£0	0.00%	0.92%	117	363	117	363
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
TOTAL	100.00%	£771,800,000	57.36%	£442,700,000	57.36%	0.85%	85	189	119	363

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Investment Risk and Rating Exposure

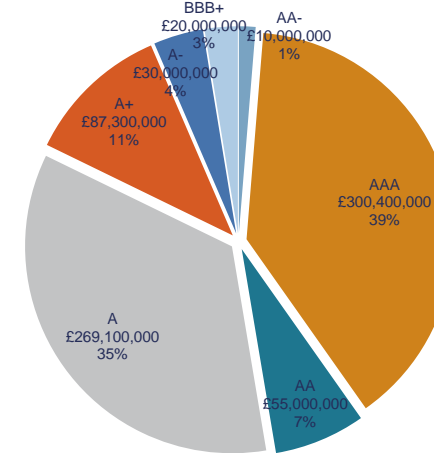
Investment Risk Vs. Rating Categories



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
07/12/2018	1655	Norddeutsche Landesbank Girozentrale	Germany	Long Term Rating was removed from Negative Outlook and placed on Negative Watch. At the same time, all other ratings have been placed on Negative Watch.
17/12/2018	1659	NatWest Markets Plc (NRFB)	United Kingdom	Long Term Rating was upgraded to 'A' from 'BBB+', Outlook on the Long Term Rating changed to Stable from Positive. The Short Term Rating was upgraded to 'F1' from 'F2' and the Viability Rating was withdrawn. Support Rating was upgraded to '1' from '5' and removed from Positive Watch.
17/12/2018	1659	National Westminster Bank Plc (RFB)	United Kingdom	Long Term Rating was upgraded to 'A+' from 'A-', Outlook on the Long Term Rating changed to Stable from Positive. The Short Term Rating was upgraded to 'F1' from 'F2' and the Viability Rating was upgraded to 'a' from 'bbb+'.
17/12/2018	1659	The Royal Bank of Scotland	United Kingdom	Long Term Rating was upgraded to 'A+' from 'A-', Outlook on the Long Term Rating changed to Stable from Positive. The Short Term Rating was upgraded to 'F1' from 'F2' and the Viability Rating was upgraded to 'a' from 'bbb+'.
20/12/2018	1662	Barclays Bank Plc (NRFB)	United Kingdom	Long Term Rating was upgraded to 'A+' from 'A', Outlook on the Long Term Rating was removed from Positive Watch and placed on Stable Outlook.
20/12/2018	1662	Barclays Bank UK Plc (RFB)	United Kingdom	Long Term Rating was upgraded to 'A+' from 'A', Outlook on the Long Term Rating was removed from Positive Watch and placed on Stable Outlook.

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
06/12/2018	1654	Bank of America N.A.	United States	Outlook on the Long Term Rating was removed from Stable and placed on Positive Watch.
17/12/2018	1660	Clydesdale Bank Plc	United Kingdom	The Long Term Rating was removed from Negative Watch and was placed on Positive Outlook.
18/12/2018	1661	Norddeutsche Landesbank Girozentrale	Germany	Outlook on the Long Term Rating was removed from Negative Outlook and placed on Evolving Watch. At the same time the Short Term Rating was placed on Negative Watch

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
10/12/2018	1656	Qatar Sovereign Rating	Qatar	Outlook on the Sovereign Rating changed to Stable from Negative
10/12/2018	1657	Qatar National Bank	Qatar	Outlook on the Long Term Rating changed to Stable from Negative
11/12/2018	1658	Macquarie Bank Ltd.	Australia	Outlook on the Long Term Rating changed to Evolving from Negative.

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