

City Of London Corporation
Monthly Investment Analysis Review
July 2017



City Of London Corporation Monthly Economic Summary

General Economy

Throughout the year, Brexit has been ever present in economic discussions. This month has been no different as economic stability has appeared more uncertain.

The first economic releases of June were of sombre viewing as the UK Purchasing Managers Index (PMI) survey figures were released. While still in expansion territory, manufacturing activity fell to a 3 month low of 54.3 from a downwardly revised 56.3. This drop in activity was a result of poor Q1 GDP growth and a sharp increase in inflation. Export orders also rose at their slowest pace for five months as the UK struggled to benefit from the weaker sterling, as some hoped they would. The Construction PMI also signified a slowing of activity as it fell to 54.8 in June from the 18 month high of 56 in May. Again, the survey results were a product of political and economic uncertainty. The slowing of activity was also reflected in the Services sector which saw its PMI fall to 53.4 from 53.8 in June, a four month low. As a result of these individual declines, the composite PMI reading has almost fallen to its 2011 lows. Growth in export orders also hit a nine month low as the economy started to see the effects of Brexit. Other data showed that industrial production fell by 0.2% on an annual basis in May, an improvement from its 0.8% fall in April. Manufacturing rose by 0.4% on the year. In all, these figures gave the economy an uncertain outlook as the second quarter came to a close.

At first glance, employment figures released this month painted a positive picture as unemployment fell to a 42 year low of 4.5%. However, it was a case of all work and no pay as average weekly earnings, including bonuses, fell by 0.7% when adjusted for inflation. This left economists concerned about the potential impact on consumer confidence. The Bank of England is keeping a close eye on wage growth as they try to observe whether increased inflation is leaving a longer term impact on prices. The fall in real wages makes an interest rate rise significantly less likely as Bank of England Governor Mark Carney stated that interest rates would probably need to rise if wages were to grow more strongly.

On the prices front, there was a particularly surprising piece of news as Consumer Price Inflation (CPI) fell to 2.6% from the four year high of 2.9% in May. This was in contrast to economists' predictions of an unchanged rate. The fall in inflation was primarily a result of falling oil prices. However, inflation is expected to pick up again as a result of the falling pound causing imports to be more expensive. However, the Bank of England have stated they expect this effect to only be temporary. Retail Price Inflation (RPI) fell to 3.5% from 3.7%. The high inflation is expected to have a negative effect on consumer spending as it eats away at disposable income.

There was one cause for optimism as after a poor start to the year as retail sales rebounded, rising 0.6% in June (mom), after a 1.1% fall in May. In the three months to June, sales rose by 1.5% offsetting the 1.4% drop in the first quarter of 2017. Thanks to the unseasonably warm weather, there was a rise in purchasing of clothes, offsetting the fall in sales of food and oil. Despite the apparent boost, some surveys noted that confidence took a slight knock as Prime Minister Theresa May lost her majority in the May election, creating fresh political uncertainty to add to that for the overall economy. Economists also predict that sluggish consumer demand is likely to slow growth, while stronger exports and investment are hoped to compensate. Despite the increase in retail sales, consumer confidence has fallen to -12, a twelve month low in the latest reading from surveyors GfK.

UK public finances were majorly hit by inflation as the deficit rose to £6.854 billion, 43% higher than at the same point the previous year. In Q1, the budget deficit also widened to £22.8 billion, increasing 8.9% compared to the last year. Spending on debt jumped up by 33% on the previous year to £4.9 billion as a higher inflation increased the cost of index linked bonds. The budget deficit is expected to widen to 2.9% of GDP from 2.4% of GDP last year. Chancellor Phillip Hammond is still looking to balance the deficit by the middle of the next decade but remains willing to be flexible as Britain continues the process of leaving the European Union.

The last big data release of the month was the first Q2 GDP estimates. This showed that the economy grew by 0.3%, up from 0.2% during the first quarter.. However, Brexit did lead to a fall in sterling, pushing up inflation which is eating away at consumers finances this year. Resultantly, the International Monetary Fund downgraded the economic outlook of Britain by more than any other G7 country, predicting growth of 1.7%, down from their previous forecast of 2.0%.

The Eurozone is carrying on a steady recovery. The unemployment rate of 9.3%, while higher than market expectations, remains unchanged and is still the lowest rate in Europe since 2009 as they slowly recover from the effects of the financial crisis. The European Central Bank (ECB) also decided to keep policy rates at unchanged while carrying on their monthly €60 billion monetary stimulus until at least December. German inflation rose by 1.6%, which was stronger than expected, suggesting a brighter future only days after ECB head Mario Draghi suggested a less accommodating ECB policy in 2018.

It was a solid month for the US which saw the unemployment rate come in at 4.4%. While this is a rise from the 16 year low 4.3%, this is down to more people looking for jobs. Non-farm payrolls saw accelerating growth, jumping up by 220,000. The increased labour market activity suggests confidence in the labour market. These encouraging figures could lead to the US central bank to begin the process of reducing its portfolio of bonds and securities later in the year. However, markets do not expect it to increase interest rates until at least December due to the US having low inflation at 1.6%. Growth accelerated at 2.6% in Q2 with boosts in consumers spending and firms investing. This is despite Congress being unable to make any headway on President Trump's fiscal initiatives.

Housing

Mortgage lenders Halifax saw house prices rise at the slowest rates in over four years. In the three months to June house prices rose by 2.6%, a slowdown from the 3.3% increase in May. In June alone, house prices actually fell by 1.0%. Elsewhere, mortgage approvals fell to their lowest level since last September at 64,684, down from 65,109 in May. Nationwide said that house prices rose by 0.3% in July, slower than the 1.1% in June. However, two months of house price growth have suggested that the housing market is stabilising after its recent wobble.

Forecast

Neither Capita Asset Services (CAS) nor Capital Economics (CE) altered their forecasts this month. It is forecasted by CAS that a rate hike to 0.50% will occur in Q2 2019 followed by a further hike to 0.75% in Q4 2019. CE expects a hike in the bank rate to occur in Q2 2018 to 0.50% with further hikes forecasted in Q4 2018 to 0.75% and in Q2 2019 to 1.00%.

Bank Rate	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%
Capital Economics	0.25%	0.25%	0.25%	0.50%	0.50%

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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	0.19%		MMF	AAA	0.000%
MMF Deutsche	10,000,000	0.21%		MMF	AAA	0.000%
MMF Federated Investors (UK)	5,000,000	0.59%		MMF	AAA	0.000%
MMF Federated Investors (UK)	8,200,000	0.21%		MMF	AAA	0.000%
Goldman Sachs International Bank	20,000,000	0.95%		Call	A	0.000%
MMF Invesco	35,900,000	0.26%		MMF	AAA	0.000%
Lloyds Bank Plc	10,200,000	0.20%		Call	A	0.000%
USDBF Payden Sterling Reserve Fund	55,000,000	0.96%		USDBF	AAA	0.000%
MMF Standard Life	5,000,000	0.76%		MMF	AAA	0.000%
MMF Standard Life	41,100,000	0.23%		MMF	AAA	0.000%
Plymouth City Council	10,000,000	0.35%	10/05/2017	10/08/2017	AA	0.001%
Barnsley Metropolitan Borough Council	5,000,000	0.45%	23/02/2017	23/08/2017	AA	0.001%
Plymouth City Council	10,000,000	0.35%	24/05/2017	24/08/2017	AA	0.002%
Nationwide Building Society	7,200,000	0.65%	30/08/2016	30/08/2017	A	0.005%
Kingston Upon Hull City Council	5,000,000	0.37%	01/06/2017	01/09/2017	AA	0.002%
Lloyds Bank Plc	17,500,000	0.32%		Call32	A	0.005%
Dundee City Council	5,000,000	0.37%	28/04/2017	06/09/2017	AA	0.002%
Leeds City Council	25,000,000	0.33%	16/06/2017	18/09/2017	AA	0.003%
Birmingham City Council	25,000,000	0.50%	24/04/2017	25/09/2017	AA	0.004%
North Lanarkshire Council	5,000,000	0.48%	24/02/2017	27/09/2017	AA	0.004%
Barclays Bank Plc	25,000,000	0.62%	03/04/2017	29/09/2017	A-	0.009%
Surrey County Council	25,000,000	0.35%	30/06/2017	29/09/2017	AA	0.004%
Lloyds Bank Plc	30,000,000	1.00%	03/10/2016	03/10/2017	A	0.010%
Barclays Bank Plc	36,000,000	0.74%	04/01/2017	04/10/2017	A-	0.010%
Lloyds Bank Plc	16,400,000	0.55%	04/04/2017	04/10/2017	A	0.010%
Suffolk County Council	5,000,000	0.48%	06/03/2017	06/10/2017	AA	0.004%
Lloyds Bank Plc	10,000,000	0.55%	12/04/2017	12/10/2017	A	0.011%
Australia and New Zealand Banking Group Ltd	5,000,000	0.34%	27/06/2017	27/10/2017	AA-	0.006%
Australia and New Zealand Banking Group Ltd	15,000,000	0.40%	03/05/2017	03/11/2017	AA-	0.006%
Lloyds Bank Plc	10,000,000	0.55%	03/05/2017	03/11/2017	A	0.015%
Santander UK Plc	100,000,000	0.65%		Call95	A	0.015%
Coventry Building Society	20,000,000	0.45%	19/04/2017	12/12/2017	A	0.021%
Goldman Sachs International Bank	20,000,000	0.71%	22/06/2017	19/12/2017	A	0.022%
Australia and New Zealand Banking Group Ltd	5,000,000	0.40%	03/07/2017	03/01/2018	AA-	0.010%
Lloyds Bank Plc	18,000,000	0.65%	03/05/2017	05/02/2018	A	0.029%
Lloyds Bank Plc	21,400,000	0.39%	12/07/2017	12/02/2018	A	0.030%

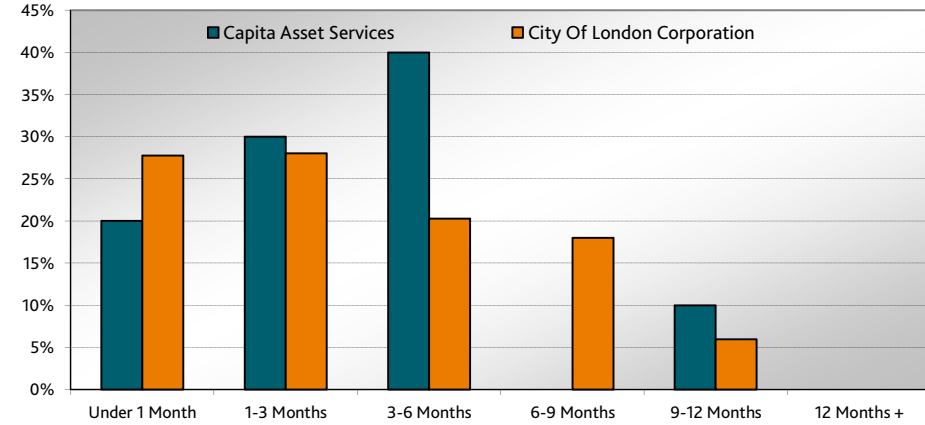
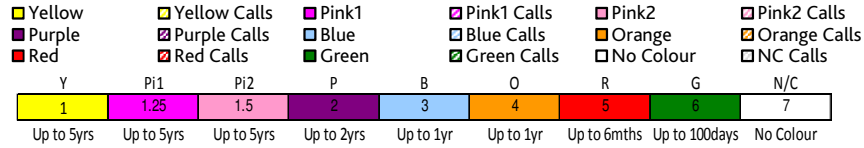
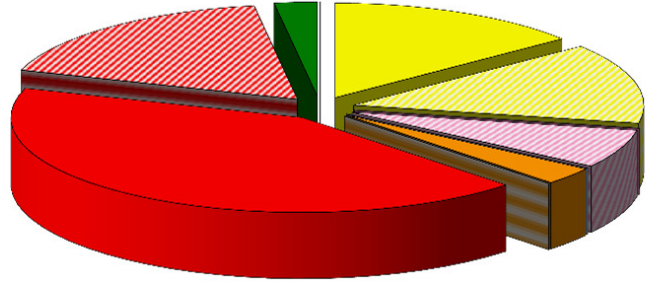
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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Lloyds Bank Plc	9,400,000	0.65%	17/05/2017	19/02/2018	A	0.031%
Goldman Sachs International Bank	10,000,000	0.75%	01/06/2017	01/03/2018	A	0.033%
Nationwide Building Society	25,000,000	0.40%	26/07/2017	12/03/2018	A	0.035%
Barclays Bank Plc	25,000,000	0.84%	10/04/2017	29/03/2018	A-	0.037%
Leeds Building Society	8,000,000	0.48%	29/06/2017	03/04/2018	A-	0.038%
Skipton Building Society	20,000,000	0.77%	24/04/2017	23/04/2018	BBB+	0.123%
Barclays Bank Plc	14,000,000	0.85%	26/04/2017	25/04/2018	A-	0.041%
Goldman Sachs International Bank	30,000,000	0.87%	19/05/2017	18/05/2018	A	0.045%
Goldman Sachs International Bank	20,000,000	1.02%	03/07/2017	02/07/2018	A	0.052%
Total Investments	£838,300,000	0.59%				0.016%

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Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number =

3.64

WARoR = Weighted Average Rate of Return

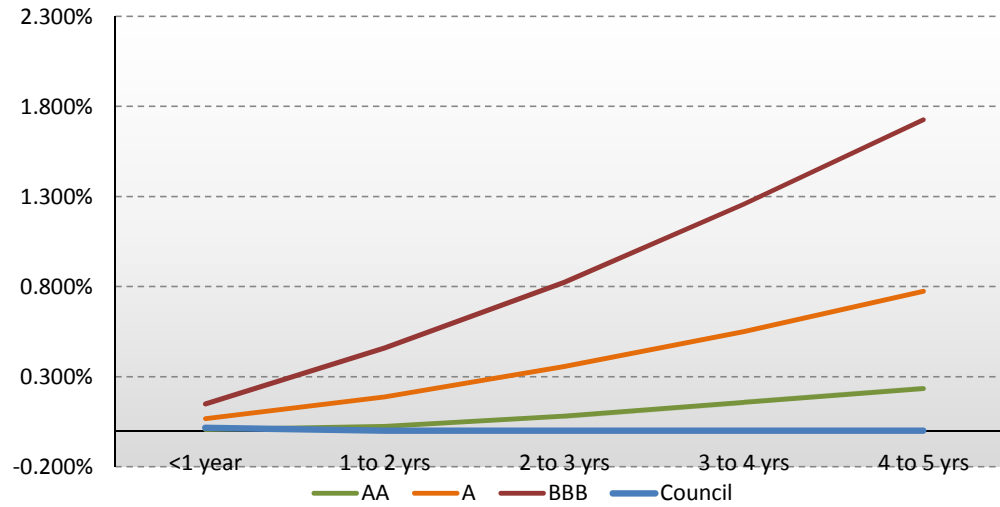
WAM = Weighted Average Time to Maturity

	% 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	28.06%	£235,200,000	48.98%	£115,200,000	13.74%	0.33%	24	62	46	121
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	6.56%	£55,000,000	100.00%	£55,000,000	6.56%	0.96%	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	2.98%	£25,000,000	0.00%	£0	0.00%	0.39%	106	172	106	172
Red	60.01%	£503,100,000	29.36%	£147,700,000	17.62%	0.67%	137	215	165	275
Green	2.39%	£20,000,000	0.00%	£0	0.00%	0.77%	266	364	266	364
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£838,300,000	37.92%	£317,900,000	37.92%	0.59%	98	160	139	238

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Investment Risk and Rating Exposure

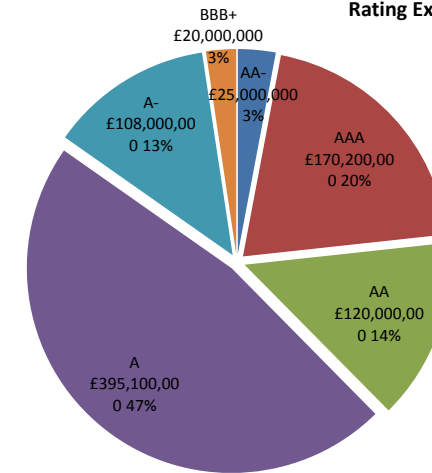
Investment Risk Vs. Rating Categories



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	0.007%	0.024%	0.081%	0.158%	0.234%
A	0.067%	0.189%	0.356%	0.551%	0.775%
BBB	0.150%	0.460%	0.824%	1.257%	1.726%
Council	0.017%	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
				No credit updates to report over the month

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
03/07/2017	1536	Co-Operative Bank Plc	United Kingdom	Long Term Rating removed from Evolving Outlook and placed on Evolving Watch
03/07/2017	1537	Norddeutsche Landesbank Girozentrale	Germany	Long Term Rating downgraded to 'Baa2' from 'Baa1', removed from Negative Watch and placed on Negative Outlook
05/07/2017	1538	Qatar Sovereign Rating	Qatar	Outlook on the Sovereign Rating changed to Negative from Stable
05/07/2017	1539	Qatar National Bank	Qatar	Outlook on the Long Term Rating changed to Negative from Stable
31/07/2017	1541	Landesbank Berlin AG	Germany	Long Term Rating upgraded to 'Aa2' from 'Aa3', Outlook changed to Stable from Positive

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
27/07/2017	1540	ING Bank N.V.	Netherlands	Long Term Rating upgraded to 'A+' from 'A'