



# City Of London Corporation

## Monthly Investment Analysis Review

October 2017

## City Of London Corporation Monthly Economic Summary

### General Economy

The overarching theme being discussed by economists this month has been whether Mark Carney and the Monetary Policy Committee (MPC) will raise interest rates. With an inflation report due on 2<sup>nd</sup> November, economists are predicting an 85% probability of a base rate hike from 0.25% to 0.50%. This results from the hawkish tone of the September MPC meeting minutes and the economic data that has been released throughout October.

The first of these releases was the Purchasing Manufacturers Index (PMI) survey for the manufacturing sector, which made for disappointing viewing as the figure fell to 55.9 in September, from 56.7. It was much lower than the prediction of 56.4 from a poll of economists, reflecting greater cost pressures as a result of increasing commodity prices, as well as capacity constraints; both of which are signs of future inflation and are therefore arguments to raise interest rates. Growth in new orders also fell as there was a slowdown in production of investment goods. Nonetheless, there was still a fairly solid pace of expansion as the PMI figure was above the 50 threshold.

The construction PMI also fell, dipping to a 14 month low of 48.1 in September from 51.1 in August. Construction has struggled since Brexit as a result of people being unwilling to invest. The negative economic outlook means that there has been less construction projects created than have being completed.

The services PMI picked up to 53.6 in September, from 53.2 in August, with the reading well above expectations. This somewhat compensated the weaker readings from the constructing and manufacturing sectors. Despite the pick-up, there were worrying signs around the sector as new orders increased at their slowest pace since August 2016 meaning British firms lagged behind their resurgent European counterparts. This reflects the darker mood around the service sector due to fears about Brexit and the general economy.

The headline Consumer Price Index (CPI) figure came in at a five and a half year high of 3.0%/y/y in September, up from 2.9% in August on the back of a monthly increase of 0.3%. RPI was 3.9% on the year and 0.1% m/m. This increase in inflation was largely driven by the fall in sterling with retailers only now passing on the increased cost of goods to the consumer. Though the majority of economists predict that interest rates will rise, there is also concern that it may harm the fragile economy.

There were no shocks from the labour market data as unemployment remained at its 42 year low of 4.3% in the three months leading to August. Total employment increased by 94,000 but the claimant count rose by 1,700, as the labour market maintained its strong position. Total pay, including bonuses, remained at 2.2% and excluding bonuses remained at 2.1% in September. Wage growth has now been lower than inflation for an extended period, meaning people have been taking a pay cut in real terms. The tight labour market further strengthened beliefs that the MPC will raise interest rates in their November meeting.

Public finance figures showed the smallest September deficit in 10 years of £5.902 billion, lower than the £6.5 billion predicted by economists. This is the third month in a row in which public finance has outstripped predictions in spite of Brexit. Tax receipts have, generally, been strong across the board, however there has been a fall in corporation tax receipts over the last twelve months.

The most significant data release of the month for policy makers was, arguably, the preliminary Q3 GDP growth estimate, which improved to 0.4% q/q, up from the 0.3% in Q3, suggesting annualised growth of 1.5%. Economists have suggested that Britain's sustainable GDP growth rate may have declined. Consequently, the value of sterling increased by 1% as this confirmed in people's minds that the MPC will raise interest rates. Gilts were also at their highest since the Brexit vote in June 2016.

The final UK release of the month was the GfK Consumer Confidence for October, which at -10 was slightly down from -9 in September, leaving it hovering just above its three year low. Meanwhile, retail sales increased by 1.9% y/y. However, spending is much more focussed on essentials, such as winter clothing and back to school items, and not big ticket items, such as furniture as consumers adapt expenditure to higher prices.

On the other side of the channel, the Eurozone is recovering strongly, despite the concerns about the potential impact of political turmoil in Catalonia. The preliminary Q3 GDP growth estimate was a solid 0.6%q/q, leading to a strong 2.5%/y/y figure. Inflation is at 1.1%. Meanwhile, unemployment has carried on its steady downward trend and currently reads at 8.9%.

In response to the improving economic situation, the ECB has announced that it will be slashing its asset purchase programme from €60bn to €30bn from January onwards. Their main refinancing operations and rates on the marginal lending and deposit facilities are unchanged at 0%, 0.25% & -0.4% respectively. The ECB expect these rates to remain at this level for an extended period of time.

In the USA, the preliminary Q3 GDP estimate reading was a healthier than feared 3%/y/y, down from 3.1% in Q2. The labour market figures were skewed by the impact of Hurricanes Harvey and Irma. While unemployment fell to 4.2% from 4.4%, non-farm payrolls fell by 33,000 as a result of the disasters. This is the first fall since September 2010 but there should be a strong correction seen in the October payrolls. Annual wage growth jumped up by 2.9%, largely because it was lower paid jobs that were most affected by the hurricanes, skewing this figure upwards.

## Housing

In October, house prices rose by 2.5% y/y, up from 2.3% in September according to Nationwide. Activity in the sector remains under pressure due to consumers having less spending power and could potentially get worse if rates are raised in November. However, Halifax say that house prices are regaining momentum, having increased by 0.8% in September alone, the fastest single month rise since February.

## Forecast

Link Asset Services (LAS) has changed its forecasts in order to reflect the interest rise from the Monetary Policy Committee meeting on 2<sup>nd</sup> November, at which the Bank Rate was increased from 0.25% to 0.50%. LAS suggest that the next interest rate rise will be to 0.75% in Q4 2018, with further rises of 25 basis points in Q4 2019 and Q3 2020. Capital Economics (CE) has not changed its forecast, expecting further rises of 25 basis points in Q2 2018, Q3 2018, Q4 2018, Q2 2019 and Q4 2019.

Bank Rate	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Link Asset Services	0.50%	0.50%	0.50%	0.50%	0.75%
Capital Economics	0.50%	0.50%	0.75%	1.00%	1.25%

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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	20,000,000	0.20%		MMF	AAA	0.000%
MMF Federated Investors (UK)	5,000,000	0.48%		MMF	AAA	0.000%
MMF Federated Investors (UK)	30,200,000	0.20%		MMF	AAA	0.000%
MMF Invesco	53,600,000	0.25%		MMF	AAA	0.000%
Lloyds Bank Plc	6,600,000	0.15%		Call	A	0.000%
USDBF Payden Sterling Reserve Fund	55,000,000	0.85%		USDBF	AAA	0.000%
Santander UK Plc	100,000,000	0.60%		Call	A	0.000%
MMF Standard Life	5,000,000	0.68%		MMF	AAA	0.000%
MMF Standard Life	15,600,000	0.20%		MMF	AAA	0.000%
Australia and New Zealand Banking Group Ltd	15,000,000	0.40%	03/05/2017	03/11/2017	AA-	0.000%
Lloyds Bank Plc	10,000,000	0.55%	03/05/2017	03/11/2017	A	0.000%
PCC for West Yorkshire	10,000,000	0.26%	26/10/2017	07/11/2017	AA	0.000%
Glasgow City Council	10,000,000	0.32%	26/09/2017	29/11/2017	AA	0.002%
Lloyds Bank Plc	22,600,000	0.32%		Call32	A	0.005%
Coventry Building Society	20,000,000	0.45%	19/04/2017	12/12/2017	A	0.006%
Goldman Sachs International Bank	20,000,000	0.71%	22/06/2017	19/12/2017	A	0.008%
Leeds City Council	25,000,000	0.30%	18/09/2017	02/01/2018	AA	0.004%
North Lanarkshire Council	5,000,000	0.35%	05/10/2017	02/01/2018	AA	0.004%
Australia and New Zealand Banking Group Ltd	5,000,000	0.40%	03/07/2017	03/01/2018	AA-	0.004%
Fife Council	10,000,000	0.30%	08/09/2017	08/01/2018	AA	0.004%
London Borough of Barking & Dagenham	10,000,000	0.39%	28/09/2017	29/01/2018	AA	0.006%
Lloyds Bank Plc	18,000,000	0.65%	03/05/2017	05/02/2018	A	0.015%
Lloyds Bank Plc	21,400,000	0.39%	12/07/2017	12/02/2018	A	0.016%
Nationwide Building Society	11,100,000	0.33%	10/08/2017	12/02/2018	A	0.016%
Lloyds Bank Plc	9,400,000	0.65%	17/05/2017	19/02/2018	A	0.017%
Surrey County Council	25,000,000	0.30%	29/09/2017	28/02/2018	AA	0.008%
Goldman Sachs International Bank	10,000,000	0.75%	01/06/2017	01/03/2018	A	0.019%
North Tyneside Metropolitan Borough Council	5,000,000	0.31%	04/09/2017	05/03/2018	AA	0.008%
Nationwide Building Society	25,000,000	0.40%	26/07/2017	12/03/2018	A	0.020%
Northamptonshire County Council	5,000,000	0.32%	14/09/2017	14/03/2018	AA	0.009%
Nationwide Building Society	25,000,000	0.32%	01/09/2017	19/03/2018	A	0.021%
Barclays Bank Plc	25,000,000	0.84%	10/04/2017	29/03/2018	A	0.023%
Leeds Building Society	8,000,000	0.48%	29/06/2017	03/04/2018	A-	0.024%
Plymouth City Council	12,000,000	0.32%	25/09/2017	03/04/2018	AA	0.010%

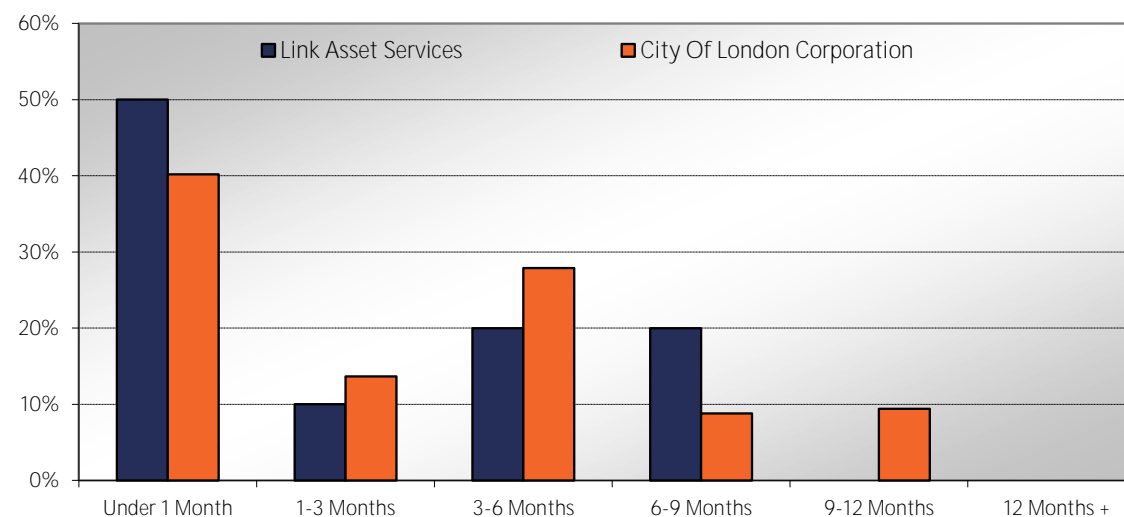
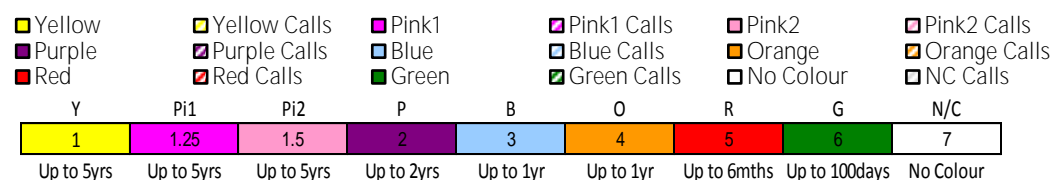
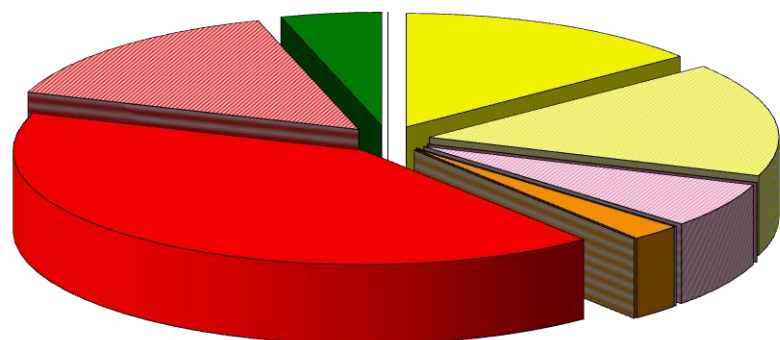
## City Of London Corporation

### Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Skipton Building Society	20,000,000	0.77%	24/04/2017	23/04/2018	BBB+	0.081%
Telford & Wrekin Council	6,000,000	0.35%	27/09/2017	24/04/2018	AA	0.011%
Barclays Bank Plc	14,000,000	0.85%	26/04/2017	25/04/2018	A	0.027%
Leeds Building Society	2,000,000	0.37%	16/08/2017	16/05/2018	A-	0.030%
Nationwide Building Society	13,800,000	0.37%	16/08/2017	16/05/2018	A	0.030%
Goldman Sachs International Bank	30,000,000	0.87%	19/05/2017	18/05/2018	A	0.031%
Leeds Building Society	5,000,000	0.37%	05/09/2017	05/06/2018	A-	0.033%
Leeds Building Society	5,000,000	0.37%	07/09/2017	07/06/2018	A-	0.034%
Goldman Sachs International Bank	20,000,000	1.02%	03/07/2017	02/07/2018	A	0.038%
Barclays Bank Plc	25,000,000	0.76%	29/09/2017	28/09/2018	A	0.051%
Goldman Sachs International Bank	20,000,000	0.95%	26/09/2017	01/10/2018	A	0.052%
Barclays Bank Plc	36,000,000	0.77%	04/10/2017	03/10/2018	A	0.052%
<b>Total Investments</b>	<b>£860,300,000</b>	<b>0.53%</b>				<b>0.015%</b>

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## Portfolio Composition by Link Asset Services' Suggested Lending Criteria



**Portfolios weighted average risk number = 3.58**

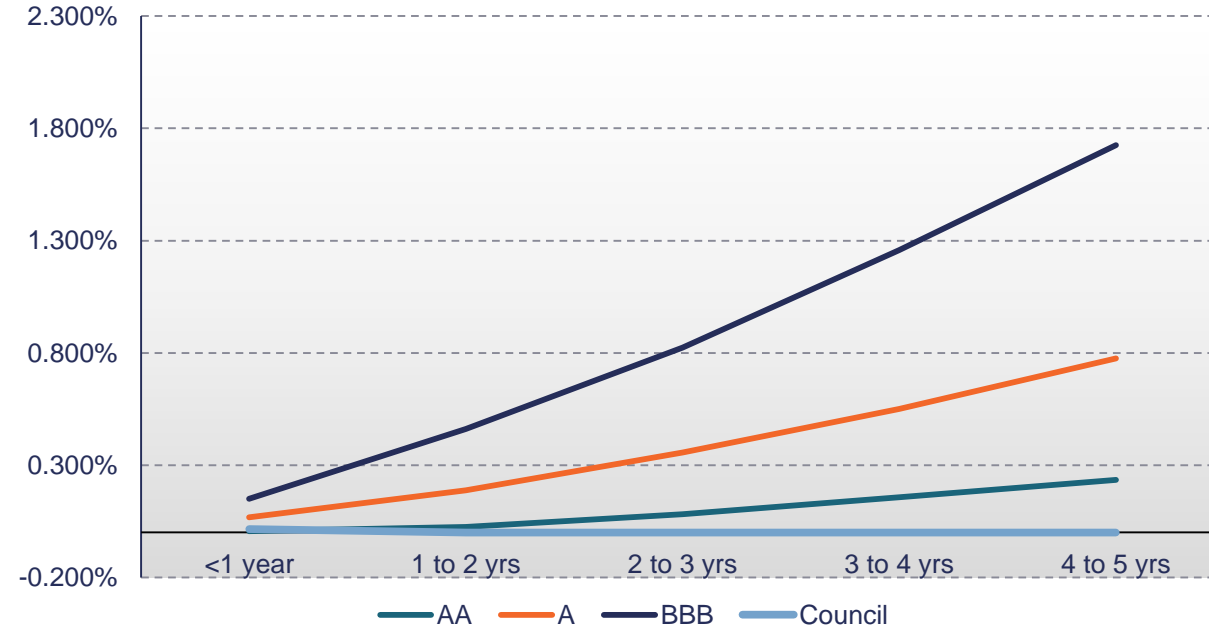
WARoR = Weighted Average Rate of Return  
WAM = Weighted Average Time to Maturity

	% 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	30.50%	£262,400,000	53.13%	£139,400,000	16.20%	0.28%	42	59	90	126
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	6.39%	£55,000,000	100.00%	£55,000,000	6.39%	0.85%	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	2.32%	£20,000,000	0.00%	£0	0.00%	0.40%	18	184	18	184
Red	56.13%	£482,900,000	26.76%	£129,200,000	15.02%	0.63%	132	216	178	292
Green	4.65%	£40,000,000	0.00%	£0	0.00%	0.59%	182	320	182	320
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
<b>Total</b>	<b>100.00%</b>	<b>£860,300,000</b>	<b>37.61%</b>	<b>£323,600,000</b>	<b>37.61%</b>	<b>0.53%</b>	<b>96</b>	<b>158</b>	<b>152</b>	<b>252</b>

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## Investment Risk and Rating Exposure

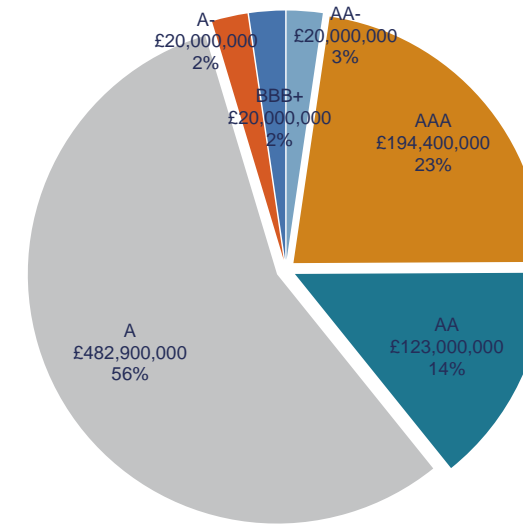
Investment Risk Vs. Rating Categories



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	0.016%	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
04/10/2017	1563	Wells Fargo Bank NA	United States	Long Term Rating downgraded to 'AA-' from 'AA', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'F1+' . Viability Rating downgraded to 'a+' from 'aa-'. Link Asset Services Colour based on Ratings changed to 'Orange' from 'Purple'.
09/10/2017	1565	Santander UK Plc	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Positive Watch.
09/10/2017	1565	Abbey National Treasury Services Plc	United Kingdom	The Long Term Rating removed from Stable Outlook and placed on Positive Watch. Link Asset Services Colour based on Ratings & Watches/Outlooks changed to 'Orange' from 'Red'.
30/10/2017	1569	Canadian Imperial Bank of Commerce	Canada	Long Term Rating affirmed at 'AA-', Outlook changed to Negative from Stable. Short Term Rating affirmed at 'F1+'.
31/10/2017	1569	Royal Bank of Canada	Canada	Long Term Rating affirmed at 'AA', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'F1+'.



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## Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
				There were no rating changes to counterparties on Link Asset Services' credit list by Moody's this month.

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### Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
06/10/2017	1564	The Royal Bank of Scotland Plc	United Kingdom	Long Term Rating affirmed at 'BBB+', Outlook changed to Negative from Stable. Short Term Rating affirmed at 'A-2'.
17/10/2017	1566	Barclays Bank Plc	United Kingdom	Long Term Rating upgraded to 'A' from 'A-'. Short Term Rating upgraded to 'A-1', from 'A-2'.
26/10/2017	1567	Credit Agricole Corporate and Investment Bank	France	Long Term Rating affirmed at 'A', Outlook changed to Positive from Stable. Short Term Rating affirmed at 'A-1'.
26/10/2017	1567	Credit Agricole SA	France	Long Term Rating affirmed at 'A', Outlook changed to Positive from Stable. Short Term Rating affirmed at 'A-1'.
30/10/2017	1568	KBC Bank N.V.	Belgium	Long Term Rating affirmed at 'A', Outlook changed to Positive from Stable. Short Term Rating affirmed at 'A-1'.

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