



# City Of London Corporation

## Monthly Investment Analysis Review

December 2017

## City Of London Corporation Monthly Economic Summary

### General Economy

Compared to November, in which we saw the first rate rise in a decade as well as a Budget, December was relatively tame. Most economic figures continued the trends we have seen throughout the year as markets and geopolitical positions generally remained unchanged.

The first economic release of the month was the Purchasing Manager's Index (PMI) survey for the manufacturing sector, which came in at a four year high of 58.2, exceeding polled expectations of 56.5. This figure suggests that growth in the sector has further accelerated in Q4, with sterling's slide seemingly providing ample support for manufacturers. Construction PMI also exceeded expectations of 51.0; the actual figure coming in at 53.1. Services PMI came in slightly below expectations of 55.0 at 53.8, however for many analysts this was arguably a simple reversal of October's sharp rise. The figure is still a little higher than Q3's average of 53.5. The survey did however suggest that cost pressures have intensified. A rise in input prices reversed some of the decline of previous months as a result of the recent rise in oil prices. Output prices also rose to their highest level since February 2008. However, with inflationary pressures caused by sterling's fall now starting to fade, commentators suggest that it should not be too long before pricing pressures begin to wane. The future activity component of the index also suggested that November's dip in sector activity could just be temporary, and that firms are not overly pessimistic about the near-term outlook. The rise in manufacturing and construction PMIs offset much of the weakening in services PMI, and the composite PMI points to Q4 GDP growth of 0.4-0.5%.

The headline inflation figure, Consumer Price Index (CPI), rose to 3.1%, its highest level in nearly six years, tightening the squeeze on households' spending. CPI was pushed up by the cost of air travel, computer games and chocolate as food costs reflected the impact of sterling's plunge after the 2016 referendum. Additionally, rising global oil prices suggested that factories were facing more price pressures. With inflation more than a percentage point over the Bank of England's (BoE) target of 2%, Bank Governor, Mark Carney, will have to write a letter to the Chancellor of the Exchequer, Philip Hammond, to explain how the Bank intends to respond to the elevated level of inflation.

Unemployment unexpectedly held at its four-decade low of 4.3% for October, against expectations of a further decrease to 4.2% according to a poll of economists. Employment figures dropped, suggesting employers are turning more cautious as the uncertainty over Brexit continued. Pay growth for British workers increased slightly in the three months to October, rising to 2.5% (including bonuses) against the previous month's 2.3%. No improvement had been expected, and while a welcome surprise wage growth is still being outstripped by inflation, meaning households are still feeling the squeeze as "real wages" are still negative.

As expected, the Monetary Policy Committee voted unanimously to keep the base rate at 0.5%, a month after raising them for the first time in more than a decade.

Public finances strengthened in November as tax revenues rose. The budget deficit edged down last month, boosted by robust income tax revenue and keeping finance minister Philip Hammond broadly on track to meet his new fiscal targets. Public sector net borrowing (excluding state owned banks) fell to £8.7 billion in November; 1.9% less than the same month last year and slightly below forecasts of it rising to £8.9 billion. In total, borrowing since the start of April 2017 has totalled £48.1 billion – 6.1% less than in the same period of 2016 and the lowest for

this point in the financial year since 2007. Looking ahead, January typically brings a big surplus in public finances as annual income tax bills fall due.

The final estimate for Q3 UK GDP affirmed growth to be at 0.4% q/q, with the annual figure upwardly revised, by 0.2%, to 1.7%. For the first time, the Office for National Statistics (ONS) has used VAT returns from hundreds of thousands of Small / Medium sized Enterprises (SMEs) in order to bolster the data used for estimating GDP. This boosted GDP growth by an average of 0.05% per quarter in 2017. Although this change did not affect the quarterly figure, it did boost the annual rate of growth.

Across the channel, Eurozone Q3 GDP was confirmed to be 0.6% q/q. Meanwhile, the annual figure was revised slightly higher, to 2.6%, an increase from the upwardly revised Q2 figure of 2.4% y/y.

In the USA, Q3 GDP was downwardly revised to 3.2%. However, this is still an increase from the Q2 GDP figure of 3.1% and the fastest rate since Q1 2015. Non-Farm Payrolls rose by 228,000 in November. US Unemployment remained unchanged in 4.1%. Average hourly earnings increased by 0.2% in the month. Meanwhile, President Trump signed his long awaited legislation for an overhaul of the tax system containing \$1.5 trillion in tax cuts.

## Housing

House prices rose for the fifth month in a row according to Halifax. They rose 0.5% m/m in November, up from 0.3% in October. However, on an annual basis, they rose by 3.9%, down from a 4.5% rise in October.

## Forecast

Neither Link Asset Services (LAS) or Capital Economics (CE) changed their bank rate forecasts during December. 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. CE suggest further rises of 25 basis points in Q2 2018, Q3 2018, Q4 2018, Q2 2019 and Q4 2019.

Bank Rate	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Link Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.50%	0.75%	1.00%	1.25%	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	0.34%		MMF	AAA	0.000%
MMF Federated Investors (UK)	5,000,000	0.45%		MMF	AAA	0.000%
MMF Federated Investors (UK)	47,900,000	0.39%		MMF	AAA	0.000%
MMF Invesco	72,400,000	0.40%		MMF	AAA	0.000%
Lloyds Bank Plc	11,100,000	0.40%		Call	A	0.000%
USDBF Payden Sterling Reserve Fund	55,000,000	0.76%		USDBF	AAA	0.000%
MMF Standard Life	5,000,000	0.60%		MMF	AAA	0.000%
MMF Standard Life	11,600,000	0.35%		MMF	AAA	0.000%
Leeds City Council	25,000,000	0.30%	18/09/2017	02/01/2018	AA	0.000%
North Lanarkshire Council	5,000,000	0.35%	05/10/2017	02/01/2018	AA	0.000%
Australia and New Zealand Banking Group Ltd	5,000,000	0.40%	03/07/2017	03/01/2018	AA-	0.000%
Fife Council	10,000,000	0.30%	08/09/2017	08/01/2018	AA	0.001%
London Borough of Barking & Dagenham	10,000,000	0.39%	28/09/2017	29/01/2018	AA	0.002%
Lloyds Bank Plc	22,600,000	0.57%		Call32	A	0.005%
Lloyds Bank Plc	18,000,000	0.65%	03/05/2017	05/02/2018	A	0.006%
London Borough of Newham	25,000,000	0.35%	03/11/2017	05/02/2018	AA	0.002%
Lloyds Bank Plc	21,400,000	0.39%	12/07/2017	12/02/2018	A	0.007%
Nationwide Building Society	11,100,000	0.33%	10/08/2017	12/02/2018	A	0.007%
Lloyds Bank Plc	9,400,000	0.65%	17/05/2017	19/02/2018	A	0.008%
Surrey County Council	25,000,000	0.30%	29/09/2017	28/02/2018	AA	0.004%
Goldman Sachs International Bank	10,000,000	0.75%	01/06/2017	01/03/2018	A	0.009%
Australia and New Zealand Banking Group Ltd	10,000,000	0.53%	03/11/2017	05/03/2018	AA-	0.004%
North Tyneside Metropolitan Borough Council	5,000,000	0.31%	04/09/2017	05/03/2018	AA	0.004%
Nationwide Building Society	25,000,000	0.40%	26/07/2017	12/03/2018	A	0.011%
Northamptonshire County Council	5,000,000	0.32%	14/09/2017	14/03/2018	AA	0.005%
Nationwide Building Society	25,000,000	0.32%	01/09/2017	19/03/2018	A	0.012%
Barclays Bank Plc	25,000,000	0.84%	10/04/2017	29/03/2018	A	0.014%
Leeds Building Society	8,000,000	0.48%	29/06/2017	03/04/2018	A-	0.014%
Lloyds Bank Plc	15,000,000	0.60%	03/11/2017	03/04/2018	A	0.014%
Plymouth City Council	12,000,000	0.32%	25/09/2017	03/04/2018	AA	0.006%
Santander UK Plc	100,000,000	0.60%		Call95	A	0.015%
Skipton Building Society	20,000,000	0.77%	24/04/2017	23/04/2018	BBB+	0.052%
Telford & Wrekin Council	6,000,000	0.35%	27/09/2017	24/04/2018	AA	0.007%
Barclays Bank Plc	14,000,000	0.85%	26/04/2017	25/04/2018	A	0.018%
Lloyds Bank Plc	16,100,000	0.65%	02/11/2017	02/05/2018	A	0.019%

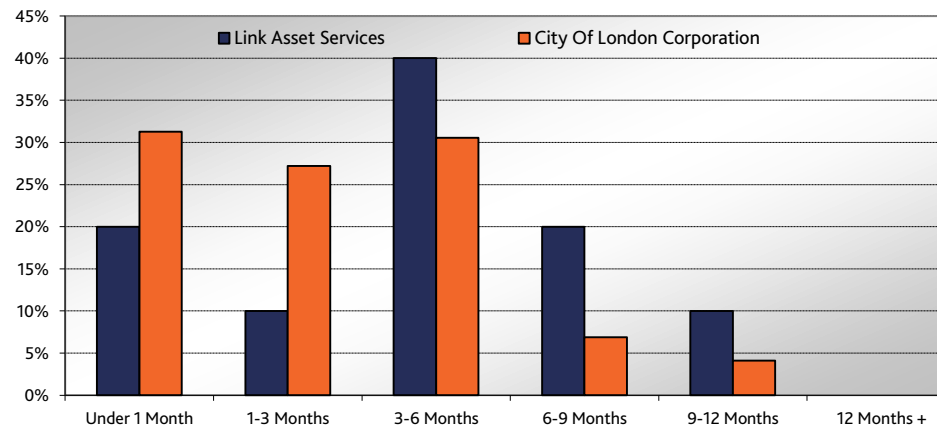
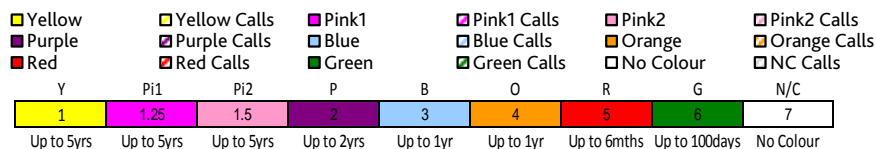
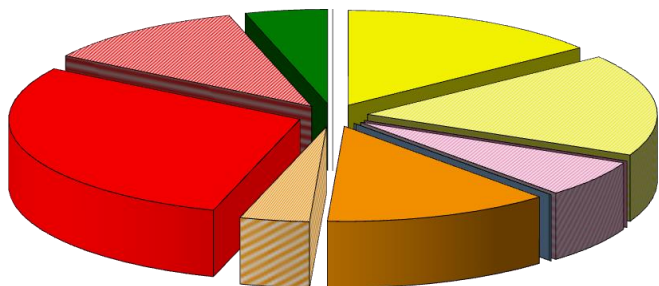
## City Of London Corporation

### Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Leeds Building Society	2,000,000	0.37%	16/08/2017	16/05/2018	A-	0.021%
Nationwide Building Society	13,800,000	0.37%	16/08/2017	16/05/2018	A	0.021%
Goldman Sachs International Bank	30,000,000	0.87%	19/05/2017	18/05/2018	A	0.021%
Leeds Building Society	5,000,000	0.37%	05/09/2017	05/06/2018	A-	0.024%
Leeds Building Society	5,000,000	0.37%	07/09/2017	07/06/2018	A-	0.024%
Goldman Sachs International Bank	20,000,000	1.02%	03/07/2017	02/07/2018	A	0.028%
Lloyds Bank Plc	15,000,000	0.75%	03/11/2017	03/08/2018	A	0.033%
Barclays Bank Plc	25,000,000	0.76%	29/09/2017	28/09/2018	A	0.042%
Goldman Sachs International Bank	20,000,000	0.95%	26/09/2017	01/10/2018	A	0.042%
Barclays Bank Plc	36,000,000	0.77%	04/10/2017	03/10/2018	A	0.043%
<b>Total Investments</b>	<b>£873,400,000</b>	<b>0.56%</b>				<b>0.013%</b>

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



Portfolios weighted average risk number = **3.38**

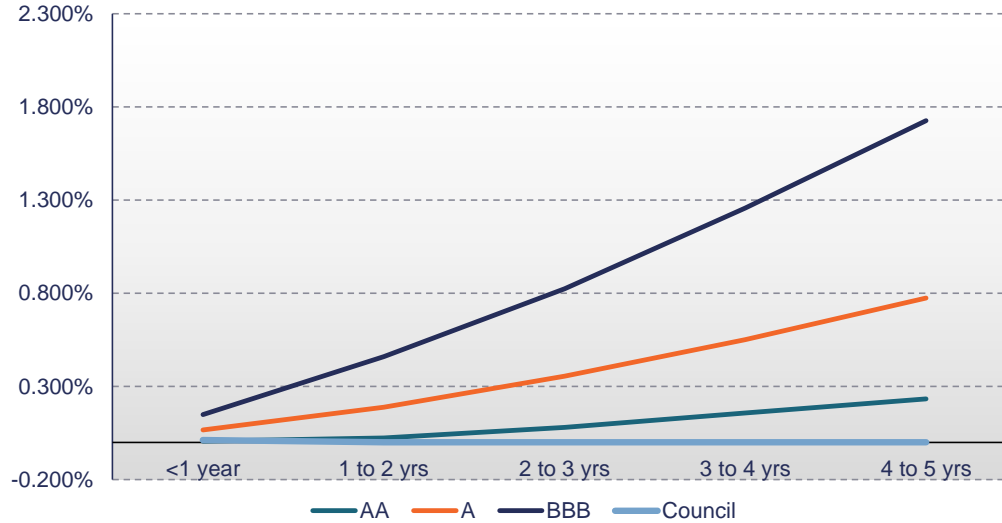
WARoR = Weighted Average Rate of Return  
WAM = Weighted Average Time to Maturity

	% 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	32.05%	£279,900,000	54.27%	£151,900,000	17.39%	0.36%	19	61	41	133
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	6.30%	£55,000,000	100.00%	£55,000,000	6.30%	0.76%	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	16.44%	£143,600,000	23.47%	£33,700,000	3.86%	0.57%	70	170	84	215
Red	40.63%	£354,900,000	28.18%	£100,000,000	11.45%	0.67%	141	255	159	318
Green	4.58%	£40,000,000	0.00%	£0	0.00%	0.59%	121	320	121	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>£873,400,000</b>	<b>39.00%</b>	<b>£340,600,000</b>	<b>39.00%</b>	<b>0.56%</b>	<b>80</b>	<b>166</b>	<b>112</b>	<b>252</b>

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## Investment Risk and Rating Exposure

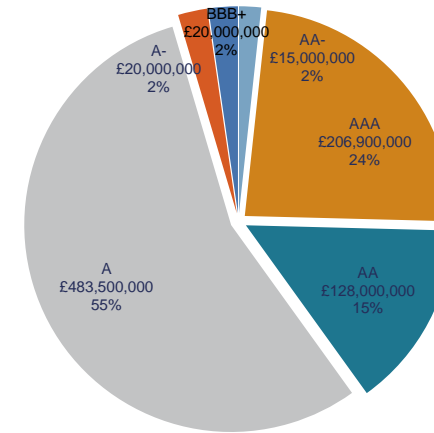
Investment Risk Vs. Rating Categories



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	0.013%	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.

## City Of London Corporation

### Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
08/12/2017	1578	KBC Bank N.V.	Belgium	Long and Short Term Ratings were affirmed, Outlook on the Long Term Rating was changed to Positive from Stable.
13/12/2017	1580	Qatar National Bank	Qatar	Viability Rating affirmed and removed from Negative Watch.



## City Of London Corporation

### Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
07/12/2017	1576	Bank of America N.A.	United States	Long Term Rating upgraded to 'Aa3' from 'A1', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'. Link Asset Services Colour based on Ratings changed to 'Orange' from 'Red'.
08/12/2017	1577	Clydesdale Bank PLC	United Kingdom	Long Term Rating upgraded to 'Baa1' from 'Baa2', removed from Positive Watch and placed on Positive Outlook. Short Term Rating affirmed at 'P-2', removed from Positive Watch.
12/12/2017	1579	Commerzbank AG	Germany	Long and Short Term Ratings were affirmed, Outlook on the Long Term Rating was changed to Positive from Stable.

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### Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
				There were no rating updates from S&P over the month.

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