

Lincolnshire County Council  
Monthly Investment Analysis Review  
September 2015



Monthly Economic Summary

**General Economy**

After months of speculation, a highly awaited Federal Reserve (Fed) meeting led to no change in the base rate. The Fed cited “Recent global economic and financial developments” for why monetary policy was left unchanged.

The Monetary Policy Committee (MPC) voted 8-1 in favour of keeping rates unchanged at their historic low of 0.5% in its September meeting. The committee further stated that price pressures showed little change on the month and that higher levels of core inflation are compensated by dropping oil prices. In the past few months, the Governor of the central bank has hinted that a rate hike could be appropriate around the turn of the year, but market expectations have now shifted to next summer. The Governor has, however, said that he believes China's problems do not appear to have yet had a detrimental effect on the UK.

British inflation stumbled to 0% again as a result of the biggest drop in oil prices since the beginning of the year. Another factor contributing to lower inflation is a slower seasonal increase in prices of clothing than in 2014. Inflation remaining stubbornly below the Bank of England’s 2% target is likely to keep the Bank’s outlook dovish. The final reading of UK Q2 GDP saw economic growth revised down to 2.4%, year on year. UK public finances for August added more gloom as it recorded the widest budget deficit since 2012. Public Sector Net Borrowing rose to £12.1bn in August from £10.7bn, well above economists’ forecasts. The unemployment rate in the UK remained stable at 5.5% in the three months to July, a record low since before the financial crisis. In addition, average weekly earnings displayed a 2.9% rise in the 3 months to July, both excluding and including bonuses. Furthermore, private sector pay grew even faster, rising by 3.7%.

The European Central Bank (ECB) left its rate unchanged at 0.05%, as expected. The central bank downgraded its inflation forecasts and ECB President Mario Draghi stated the bank is prepared to increase its €1.1tn bond buying programme. The 19-nation bloc experienced deflation for the first time in 6 months as annual inflation fell to -0.1% in September predominantly driven by a decline in energy prices. This reinforced the argument for the ECB to expand its asset purchasing programme. On a more positive note, the second reading of Q2 Eurozone GDP was revised up to 0.4% quarter-on-quarter from its previous estimate of 0.3%. Year-on-year, the Eurozone expanded by 1.5%. The revision was mainly due to Italy’s economy performing better than expected, as well as Germany and France reporting stronger growth figures. Eurozone unemployment was announced at 11% for August, with the July figure being revised upwards also to 11% from a previously reported 10.9%.

The August Non-farm payrolls data release showed the US economy created 173,000 jobs, far less than the expected figure of 220,000. The manufacturing sector lost the most jobs in more than two years and the August figure showed the lowest increase in five months. The unemployment rate, however, fell to 5.1%, the lowest in nearly 10 years. US Q2 GDP was revised up to 3.9% from the 3.7% previously reported. The rise was mainly attributed to growth in consumer spending, particularly on healthcare and transport.

A widely anticipated Federal Reserve meeting, which some analysts believed would finally result in a rate hike, was of little excitement as the Fed maintained the status quo. Although the forecasts for the current year were upbeat with GDP and inflation forecasts both revised up and unemployment revised down, global economic weakness was the main reason to keep rates steady. Particularly, China’s economic slowdown was viewed as a great cause for concern. However, the Fed is still open to the possibility of a rate rise later this year with 13 out of the 17 Fed policymakers predicting a rate rise later this year.

**Forecast**

Capita Asset Services did not alter its forecast this month. Capita Asset Services expects the first rate hike to come in the second quarter of 2016. Capital Economics left their forecast unchanged in September. They expect the first Bank Rate increase

Bank Rate	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Capita Asset Services	0.50%	0.50%	0.75%	0.75%	1.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%

# Lincolnshire County Council

## Current Investment List

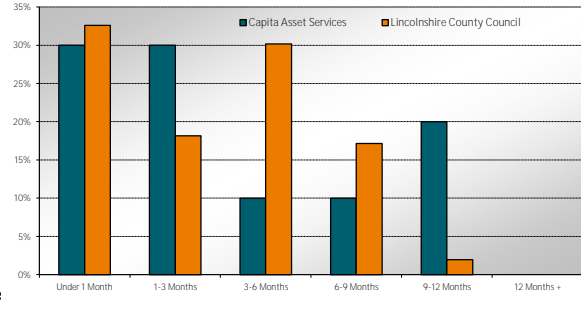
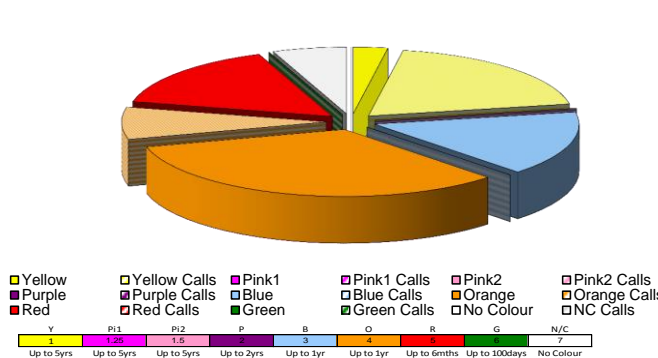
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of
MMF Deutsche	20,000,000	0.49%		MMF	AAA	0.000%
MMF Aberdeen	12,074,000	0.45%		MMF	AAA	0.000%
MMF Standard Life	17,675,000	0.49%		MMF	AAA	0.000%
United Overseas Bank Ltd	5,135,000	0.58%	10/04/2015	12/10/2015	AA-	0.000%
Bank of Scotland Plc	2,750,000	1.00%	27/10/2014	26/10/2015	A	0.004%
DBS Bank Ltd	5,000,000	0.57%	24/04/2015	26/10/2015	AA-	0.000%
Standard Chartered Bank	5,000,000	0.71%	29/04/2015	29/10/2015	A+	0.005%
HSBC Bank Plc	10,000,000	0.61%		Call30	AA-	0.001%
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	6,000,000	0.61%	30/04/2015	30/10/2015	AA-	0.001%
The Royal Bank of Scotland Plc	2,825,000	0.92%	05/11/2014	04/11/2015	BBB+	0.014%
DBS Bank Ltd	5,000,000	0.58%	05/05/2015	05/11/2015	AA-	0.001%
DBS Bank Ltd	5,000,000	0.58%	29/05/2015	30/11/2015	AA-	0.001%
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	5,000,000	0.63%	29/05/2015	30/11/2015	AA-	0.001%
Standard Chartered Bank	5,000,000	0.71%	12/06/2015	11/12/2015	A+	0.012%
Nordea Bank AB	3,758,000	0.73%	16/07/2015	15/12/2015	AA-	0.001%
North Tyneside Metropolitan Borough Council	5,000,000	0.75%	24/12/2014	23/12/2015	AA+	0.002%
DBS Bank Ltd	5,000,000	0.61%	23/06/2015	23/12/2015	AA-	0.002%
HSBC Bank Plc	10,000,000	0.68%		Call90	AA-	0.002%
Bank of Scotland Plc	5,000,000	0.80%	09/04/2015	08/01/2016	A	0.017%
Standard Chartered Bank	5,000,000	0.80%	24/04/2015	25/01/2016	A+	0.020%
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	5,000,000	0.66%	07/08/2015	08/02/2016	AA-	0.002%
Coöperatieve Centrale Raiffeisen Boerenleenbank	5,000,000	0.66%	07/08/2015	08/02/2016	A+	0.022%
Bank of Scotland Plc	10,000,000	1.00%	16/02/2015	15/02/2016	A	0.023%
Bank of Scotland Plc	10,000,000	1.00%	02/03/2015	29/02/2016	A	0.026%
Bank of Scotland Plc	7,250,000	1.00%	04/03/2015	02/03/2016	A	0.026%
Skandinaviska Enskilda Banken AB	6,000,000	0.71%	03/06/2015	03/03/2016	A+	0.026%
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	4,000,000	0.69%	03/09/2015	03/03/2016	AA-	0.003%
Commonwealth Bank of Australia	5,000,000	0.65%	11/09/2015	11/03/2016	AA-	0.003%
Doncaster Metropolitan Borough Council	2,000,000	1.10%	13/03/2014	14/03/2016	AA+	0.003%
Bank of Scotland Plc	5,000,000	1.00%	23/03/2015	21/03/2016	A	0.029%
Skandinaviska Enskilda Banken AB	8,175,000	0.74%	03/07/2015	23/03/2016	A+	0.030%

## Lincolnshire County Council

### Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of
The Royal Bank of Scotland Plc	10,000,000	0.91%	09/04/2015	07/04/2016	BBB+	0.078%
The Royal Bank of Scotland Plc	7,175,000	0.91%	15/04/2015	13/04/2016	BBB+	0.081%
Skandinaviska Enskilda Banken AB	5,825,000	0.80%	27/04/2015	25/04/2016	A+	0.035%
The Royal Bank of Scotland Plc	5,000,000	0.90%	14/05/2015	12/05/2016	BBB+	0.093%
Svenska Handelsbanken AB	6,050,000	0.99%	17/07/2015	26/05/2016	AA-	0.004%
The Royal Bank of Scotland Plc	10,000,000	0.93%	22/06/2015	20/06/2016	BBB+	0.109%
The Royal Bank of Scotland Plc	5,000,000	0.95%	03/07/2015	01/07/2016	BBB+	0.113%
<b>Total Investments</b>	<b>£256,692,000</b>	<b>0.73%</b>				<b>0.021%</b>

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **3.51**

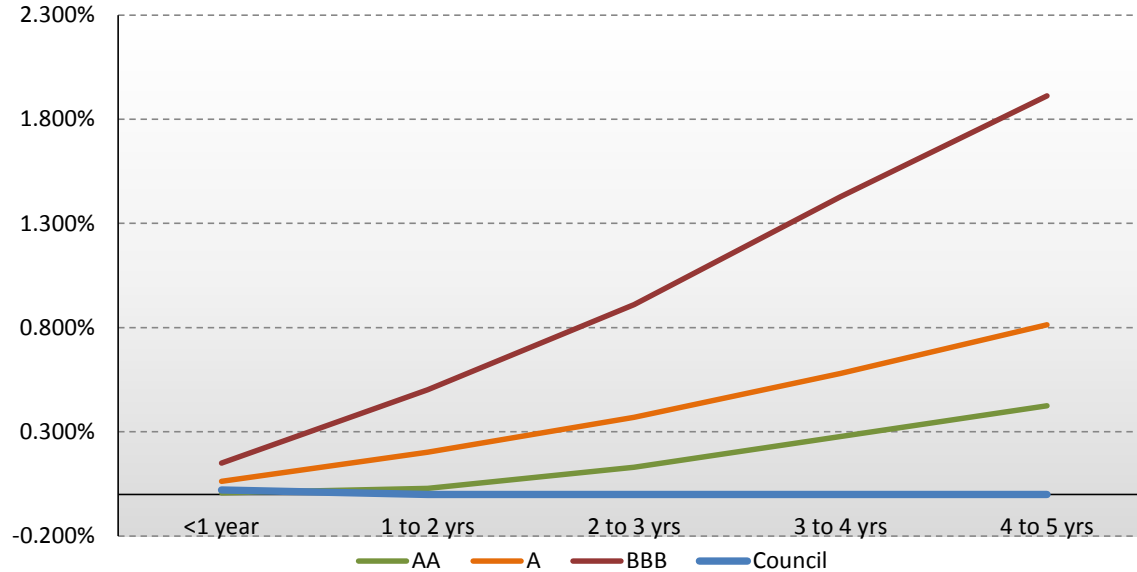
WARoR = Weighted Average Rate of Return

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	WAM	WAM at Execution
									Excluding Calls/MMFs/EMMFs	
Yellow	22.11%	£56,749,000	87.66%	£49,749,000	19.38%	0.53%	13	58	107	469
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	15.58%	£40,000,000	0.00%	£0	0.00%	0.92%	214	364	214	364
Orange	40.88%	£104,943,000	19.06%	£20,000,000	7.79%	0.67%	103	188	113	218
Red	15.58%	£40,000,000	0.00%	£0	0.00%	0.98%	136	353	136	353
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	5.84%	£15,000,000	0.00%	£0	0.00%	0.74%	73	214	73	214
<b>Total</b>	<b>100.00%</b>	<b>£256,692,000</b>	<b>27.17%</b>	<b>£69,749,000</b>	<b>27.17%</b>	<b>0.73%</b>	<b>104</b>	<b>214</b>	<b>142</b>	<b>287</b>

Investment Risk and Rating Exposure

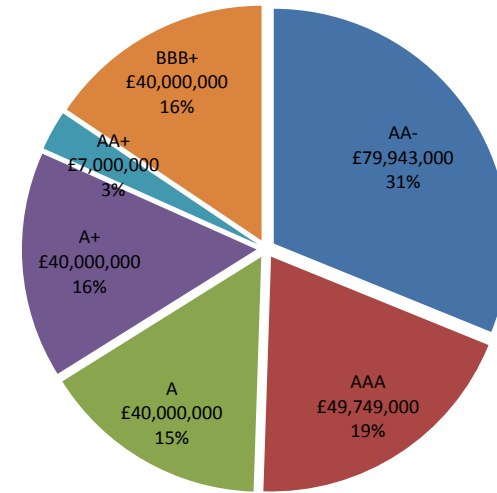
Investment Risk Vs. Rating Categories



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%	0.029%	0.130%	0.278%	0.425%
A	0.062%	0.202%	0.370%	0.581%	0.813%
BBB	0.150%	0.502%	0.910%	1.428%	1.912%
Council	0.021%	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.

Monthly Credit Rating Changes  
FITCH

Date	Update Number	Institution	Country	Rating Action
02/09/2015	1382	Riyad Bank	Saudi Arabia	Changed the Outlook on the Long Term Rating of Riyad Bank to Negative from Stable. Affirmed its 'A' Long Term and 'F1' Short Term Ratings

Monthly Credit Rating Changes  
MOODY'S

Date	Update Number	Institution	Country	Rating Action
16/09/2015	1383	Skipton Building Society	United Kingdom	Affirmed the 'Baa2' Long Term and 'P-2' Short Term Ratings of Skipton Building Society. The Long Term Rating was removed from Positive Watch and placed on Stable Outlook.
17/09/2015	1384	Santander UK plc	United Kingdom	Affirmed the 'A1' Long Term and 'P-1' Short Term Ratings of Santander UK plc. The Long Term Rating was removed from Positive Watch and placed on Stable Outlook.
18/09/2015	1386	Abbey National Treasury Services	United Kingdom	Affirmed the 'A1' Long Term and 'P-1' Short Term Ratings of Abbey National Treasury Services plc. The Long Term Rating was removed from Positive Watch and placed on Stable Outlook.
21/09/2015	1387	France	France	Downgraded the Sovereign Rating to 'Aa2' from 'Aa1' and the Outlook was changed to Stable from Negative
24/09/2015	1388	Credit Industriel et Commercial	France	Downgraded the Long Term Rating to 'Aa3' from 'Aa2' while the Short Term Rating was affirmed. The Outlook on the Long Term Rating was changed to Stable from Negative.



Monthly Credit Rating Changes  
S&P

Date	Update Number	Institution	Country	Rating Action
17/09/2015	1385	Sumitomo Mitsui Banking Coporation Europe Ltd	United Kingdom	Downgraded the Long Term Rating to 'A' from 'A+' and changed the Outlook to Stable from Negative.
25/09/2015	1389	Finland	Finland	The Long Term Rating was affirmed at 'AA+' and the Outlook was changed to Negative from Stable.

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