

Lincolnshire County Council
Monthly Investment Analysis Review
March 2016



General Economy

The Budget dominated headlines this month as the Chancellor of the Exchequer, George Osborne, painted a glum picture in his last budget before the European Union referendum. The upcoming membership vote continued to create uncertainty, which had negative impacts on a variety of data releases covering the domestic economy.

In his Budget, the big blow to the Chancellor came in the form of downward revisions to growth forecasts for the next five years, alongside higher borrowing forecasts by the Office for Budget Responsibility. Despite this, the Chancellor still expects to run a fiscal surplus by in 2019/2020.

Public finance data, released shortly after the Budget, added to the Chancellor's gloom, showing borrowing fell by less than expected to £7.1 billion in February. The deficit for the fiscal year currently stands at £70.7 billion, meaning borrowing in the final month of the year will have to fall to its lowest March level in more than a decade if the Chancellor is to reach his borrowing target for 2015-16.

Public finances aside, most of the UK data held steady through the month. One exception came from wages, which, including bonuses, beat expectations and climbed to 2.1% annually in the three months to January from 1.9% previously. However, it still remains below pre-crisis levels and has yet to mirror the fall in unemployment, which remained unchanged at a 10-year low of 5.1% for the third successive month. CPI also showed no change, holding steady at 0.3% in February (year-on-year) but rose to 0.2% on the monthly basis. In light of this release, it was hardly surprising that the Bank of England's Monetary Policy Committee (MPC) maintained a dovish tone and unanimously voted to keep rates at record lows of 0.5%. The aforementioned domestic data played a part in the MPC's decision, but another key reason cited by the Committee was the uncertainty surrounding the upcoming EU referendum. The Committee highlighted the negative impact that this uncertainty has already had on sterling.

The UK's composite Purchasing Managers' Index (PMI) disappointed as the manufacturing PMI fell drastically to 50.5 in February, a 34 month low, led by economic uncertainty. 'Brexit' concerns did not help the remaining PMI releases as services activity lost momentum and slowed to 52.7 in February, nearly a three-year low, whilst construction PMI weakened to 54.2 in February, a ten-month low. Furthermore, there were also signs that worry about the upcoming European Union (EU) referendum, along with Eurozone's current economic problems damaged consumer confidence which remained at zero. This was its lowest level for more than a year. On a more positive note, despite uncertainty and weak confidence, UK GDP registered growth of 0.6% in the final quarter of 2015 and 2.1% on the year, with consumer demand and a strong services sector being the main drivers.

Elsewhere, in Europe, the European Central Bank (ECB) surprised markets by cutting all three of its interest rates and expanding its quantitative easing (QE) programme to kick-start the Eurozone's ailing economy. The ECB slashed its deposit rate by 10 basis points to -0.4% as well as its main refinancing rate to 0% from 0.05%. Furthermore, the ECB expanded its QE programme to €80 billion per month, from €60 billion, in an attempt to increase the availability and lower the cost of funds for lending. Consequently, shares in Eurozone banks rallied sharply after the announcement, but gave up most of their gains shortly afterwards as investors remained concerned that even these measures may not prove to be enough to support the currency bloc's economic recovery. Although Eurozone GDP showed no change from the previous quarter, GDP for Q4 grew by 0.3% quarter-on-quarter and 1.6% on the year with Ireland, Malta and Luxembourg showing the strongest annual growth.

Across the pond, the US bore slightly better news than Europe as February registered a surge in Nonfarm payrolls of 242,000, whilst the unemployment remained at 4.9%, an eight-year low. The strengthening of the labour market allayed any fears that the economy was heading towards a fresh recession. As the labour market registered strong gains other indicators, including inflation, all suggested an expansion in economic activity. Despite this, the Federal Reserve opted to leave rates unchanged at 0.25% to 0.5%, stating that 'global economic and financial developments continue to pose risks'. The Federal Reserve also lowered its projections for the pace of future rate hikes and officials now expect two rate hikes this year as opposed to four originally expected in December. The month wrapped up with U.S. GDP data increasing by 1.4% on annual basis, a slowdown from the third quarter's figure of 2.0% brought about by the continuation of reduction in inventories, though, offset by fairly strong consumer spending.

Currency

Sterling opened the month at \$1.392 against the US dollar and closed at \$1.437. Against the Euro, Sterling opened at €1.282 and closed at €1.261.

Forecast

Capita Asset Services did not alter its forecast this month. Capita Asset Services expects the first rate hike to come in the first quarter of 2017. Capital Economics left their forecast unchanged in March. They expect the first Bank Rate increase to come in Q4 2016.

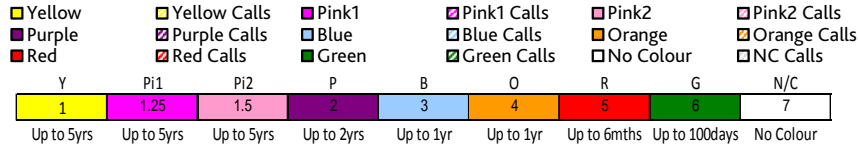
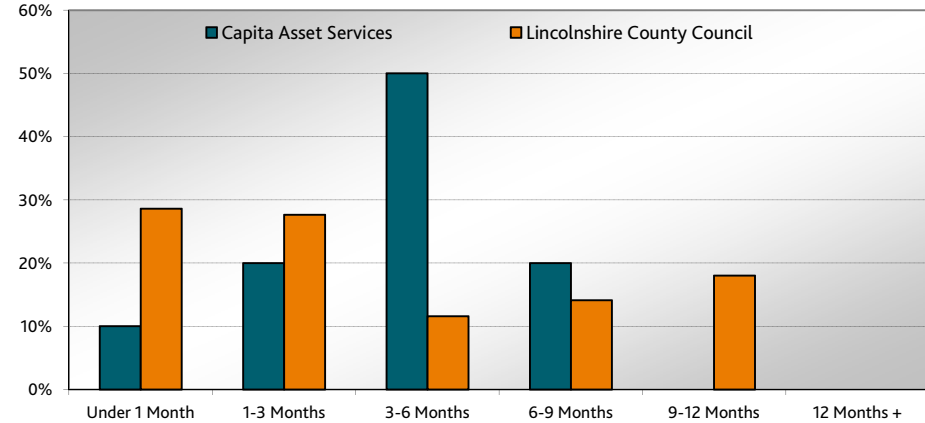
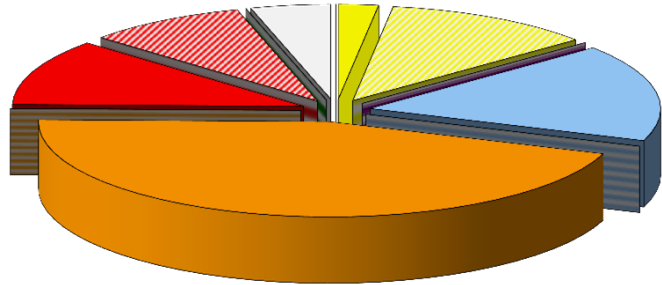
Bank Rate	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%

Lincolnshire County Council

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Deutsche	11,875,000	0.48%		MMF	AAA	0.000%
MMF Insight	14,434,000	0.46%		MMF	AAA	0.000%
Standard Chartered Bank	5,000,000	0.72%	19/11/2015	01/04/2016	A	0.000%
The Royal Bank of Scotland Plc	10,000,000	0.91%	09/04/2015	07/04/2016	BBB+	0.003%
The Royal Bank of Scotland Plc	7,175,000	0.91%	15/04/2015	13/04/2016	BBB+	0.005%
Skandinaviska Enskilda Banken AB	5,825,000	0.80%	27/04/2015	25/04/2016	A+	0.004%
HSBC Bank Plc	10,000,000	0.61%		Call30	AA-	0.001%
DZ Bank AG (Deutsche Zentral-Genossenschaftsb:	6,000,000	0.64%	04/11/2015	04/05/2016	AA-	0.001%
DBS Bank Ltd	5,000,000	0.63%	05/11/2015	05/05/2016	AA-	0.001%
Standard Chartered Bank	5,000,000	0.74%	06/11/2015	06/05/2016	A	0.006%
The Royal Bank of Scotland Plc	5,000,000	0.90%	14/05/2015	12/05/2016	BBB+	0.017%
Svenska Handelsbanken AB	6,050,000	0.99%	17/07/2015	26/05/2016	AA-	0.001%
DBS Bank Ltd	5,000,000	0.60%	30/11/2015	31/05/2016	AA-	0.001%
The Royal Bank of Scotland Plc	10,000,000	0.93%	22/06/2015	20/06/2016	BBB+	0.033%
DBS Bank Ltd	5,000,000	0.65%	23/12/2015	23/06/2016	AA-	0.002%
HSBC Bank Plc	10,000,000	0.69%		Call90	AA-	0.002%
The Royal Bank of Scotland Plc	5,000,000	0.95%	03/07/2015	01/07/2016	BBB+	0.038%
DBS Bank Ltd	5,000,000	0.68%	26/10/2015	26/07/2016	AA-	0.002%
Cooperatieve Rabobank U.A.	6,075,000	0.69%	08/02/2016	08/08/2016	A+	0.022%
DZ Bank AG (Deutsche Zentral-Genossenschaftsb:	5,000,000	0.64%	12/02/2016	12/08/2016	AA-	0.002%
Cooperatieve Rabobank U.A.	10,000,000	0.75%	15/02/2016	16/09/2016	A+	0.029%
Toronto Dominion Bank	5,000,000	0.80%	16/10/2015	14/10/2016	AA-	0.004%
Toronto Dominion Bank	5,000,000	0.81%	16/10/2015	14/10/2016	AA-	0.004%
Toronto Dominion Bank	8,500,000	0.90%	29/10/2015	27/10/2016	AA-	0.004%
United Overseas Bank Ltd	6,775,000	0.80%	04/11/2015	02/11/2016	AA-	0.004%
Toronto Dominion Bank	1,500,000	0.89%	06/11/2015	04/11/2016	AA-	0.004%
North Tyneside Metropolitan Borough Council	5,000,000	0.75%	23/12/2015	21/12/2016	AA+	0.005%
Commonwealth Bank of Australia	5,000,000	0.85%	07/01/2016	05/01/2017	AA-	0.005%
Bank of Montreal	5,000,000	0.85%	19/01/2016	17/01/2017	A+	0.050%
National Australia Bank Ltd	5,450,000	0.80%	03/02/2016	01/02/2017	AA-	0.006%
Bank of Montreal	10,000,000	0.80%	12/02/2016	10/02/2017	A+	0.054%
Commonwealth Bank of Australia	10,000,000	0.90%	11/03/2016	10/03/2017	AA-	0.006%
Commonwealth Bank of Australia	5,000,000	0.97%	31/03/2016	30/03/2017	AA-	0.007%
Total Investments	£224,659,000	0.76%				0.010%

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



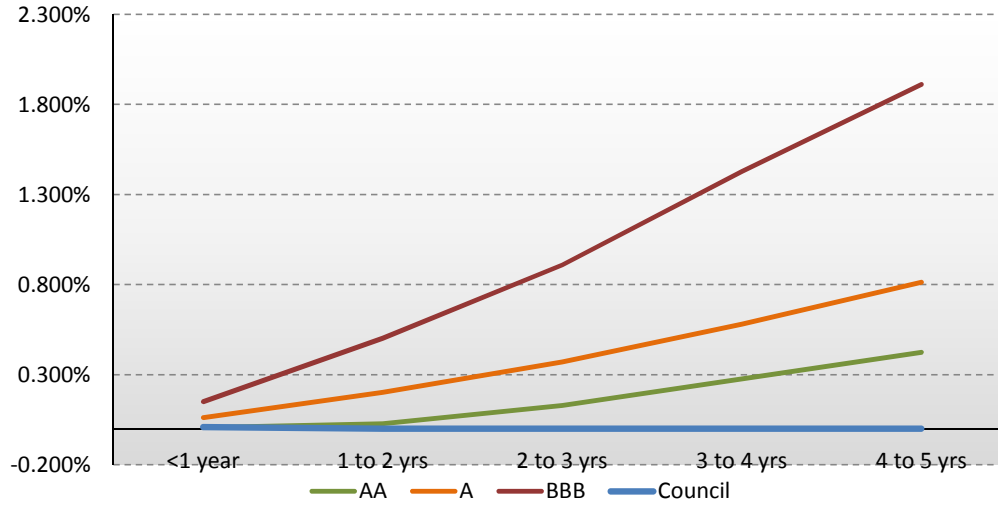
Portfolios weighted average risk number = **3.75**

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/EMMFs	
									WAM	WAM at Execution
Yellow	13.94%	£31,309,000	84.03%	£26,309,000	11.71%	0.51%	42	58	265	364
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	16.55%	£37,175,000	0.00%	£0	0.00%	0.92%	44	364	44	364
Orange	44.83%	£100,725,000	0.00%	£0	0.00%	0.76%	154	284	154	284
Red	20.23%	£45,450,000	44.00%	£20,000,000	8.90%	0.78%	210	230	327	364
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	4.45%	£10,000,000	0.00%	£0	0.00%	0.73%	19	158	19	158
Total	100.00%	£224,659,000	20.61%	£46,309,000	20.61%	0.76%	125	249	159	307

Investment Risk and Rating Exposure

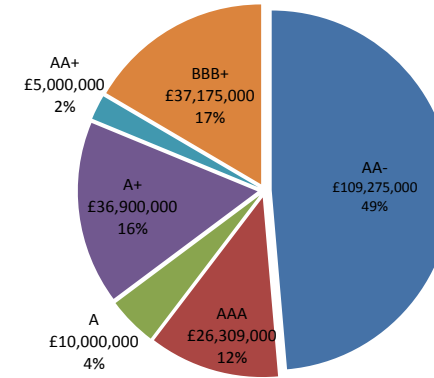
Investment Risk Vs. Rating Categories



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	0.010%	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.

Lincolnshire County Council

Monthly Credit Rating Changes

FITCH

Date	Update Number	Institution	Country	Rating Action
07/03/2016	1427	Commerzbank AG	Germany	Long Term Rating upgraded to 'BBB+' from 'BBB', Outlook changed to 'Stable' from 'Positive'. Viability Rating upgraded to 'bbb+' from 'bbb', Short Term and Support Ratings were affirmed at 'F2' and '5' respectively.
14/03/2016	1431	Finland	Finland	Sovereign Rating downgraded to 'AA+' from 'AAA', Outlook changed to 'Stable' from 'Negative'.

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
07/03/2016	1424	Qatar	Qatar	Sovereign Rating, 'Aa2', removed from 'Stable Outlook' and placed on 'Negative Watch'.
07/03/2016	1425	Abu Dhabi	Abu Dhabi	Sovereign Rating, 'Aa2', removed from 'Stable Outlook' and placed on 'Negative Watch'.
07/03/2016	1426	Standard Chartered Bank	U.K.	Long Term Rating downgraded to 'Aa3' from 'Aa2' , removed from 'Negative Watch' and placed on 'Negative Outlook'. The Short Term Rating was affirmed at 'P-1'.
08/03/2016	1428	National Bank of Abu Dhabi	Abu Dhabi	Long Term Rating, 'Aa3', removed from 'Stable Outlook' and placed on 'Negative Watch'.
08/03/2016	1428	Qatar National Bank	Qatar	Long Term Rating, 'Aa3', removed from 'Stable Outlook' and placed on 'Negative Watch'.
22/03/2016	1432	Deutsche Bank AG	Germany	Long Term Rating, 'A2', removed from 'Negative Outlook' and placed on 'Negative Watch'. Short Term Rating, 'P-1', placed on Negative Watch.
31/03/2016	1433	DBS Bank Ltd	Singapore	Long Term Rating affirmed at 'Aa1', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'P-1'
31/03/2016	1433	Oversea Chinese Banking Corporation Ltd	Singapore	Long Term Rating affirmed at 'Aa1', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'P-1'
31/03/2016	1433	United Overseas Bank Ltd	Singapore	Long Term Rating affirmed at 'Aa1', Outlook changed to 'Negative' from 'Stable'. Short Term Rating affirmed at 'P-1'

Lincolnshire County Council

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
11/03/2016	1429	Commerzbank AG	Germany	Long Term Rating affirmed at 'BBB+', Outlook changed to 'Stable' from 'Negative'. Short Term Rating affirmed at 'A-2'.
11/03/2016	1430	BNP Paribas Fortis	Belgium	Long Term Rating downgraded to 'A' from 'A+', removed from 'Negative Watch' and placed on 'Stable Outlook'. Short Term Rating affirmed at 'A-1'.
11/03/2016	1430	BNP Paribas	France	Long Term Rating downgraded to 'A' from 'A+', removed from 'Negative Watch' and placed on 'Stable Outlook'. Short Term Rating affirmed at 'A-1'.
31/03/2016	1434	Standard Chartered Bank	U.K.	Long Term Rating downgraded to 'A' from 'A+', removed from 'Negative Watch' and placed on 'Positive Outlook'. Short Term Rating affirmed at 'A-1'.

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