

Lincolnshire County Council

Monthly Investment Analysis Review

March 2018

Monthly Economic Summary

General Economy

The first key economic release of the month was the February Manufacturing Purchasing Managers' Index (PMI) survey. This dropped to an eight-month low of 55.2 from 55.3 in January, despite a marked upturn in new orders. The headline figure did, however, beat the average forecast of 55.0. Furthermore, underlying data within the survey showed that factory order growth is the strongest it has been since November and that 56% of manufacturers expect to raise production over the coming year. Meanwhile, construction PMI picked up slightly in February – but uncertainty continues to weigh on order books. The figure rose to 51.4 from 50.2 in January, ahead of even the most optimistic of forecasts. Services PMI also perked up, jumping to a four-month high of 54.5 from 53.0; with new orders rising at their fastest rate since May last year. The combination of the three surveys reinforced market expectations that the Bank of England (BoE) will raise interest rates again in their May meeting.

Elsewhere, trade balance data led to the suggestion that Britain's economy remains on a slow trajectory ahead of Brexit. Britain went from being the fastest-growing G7 economy in 2016 to the weakest last year as the Brexit vote weighed on household spending and corporate investment. Manufacturing output inched up 0.1% in January after a 0.3% rise in December – weaker than a poll forecasting 0.2%. This latest reading left the three month rate at 0.9%, the weakest pace since mid-2017.

Painting a slightly more cheerful picture, British inflation was weaker than expected in February as the impact of the Brexit vote finally faded from the figures, easing some of the squeeze on consumers who have seen their rising pay flag behind rising prices. The annual Consumer Price Index (CPI) rate rose by 2.7% in February, down from 3.0% previously and the weakest increase since July of last year. This provided further evidence that Britain's inflation peaked after hitting its highest level in five years of 3.1% in November 2017. Many of the early 2017 price increases due to the previous depreciation of the pound have started to work through the system, with petrol prices falling on the month and food prices rising more slowly than in February 2017 – all contributing to a lower inflation figure.

Unemployment edged back down to its four-decade low of 4.3% in February having briefly risen to 4.4% in January. The number of people in work grew by 168,000 in the three months to January – double the rise predicted in a poll of economists. Paired with that, British workers overall pay rose at the fastest pace in nearly two-and-a-half years over the three months to January – also increasing chances that the BoE will raise the cost of borrowing in May. Total earnings, including bonuses, rose annually by 2.8% in the three months to January compared with an upwardly revised 2.7% rise in the three months to December. Excluding bonuses, wages rose by

2.6%, a slight pick-up from the 2.5% seen in the three months to December. An expected steady increase in pay growth was a major reason why the BoE said in February that it expected interest rates to rise faster than they thought a few months previously.

Switching to public finance data, Public Sector Net Borrowing (PSNB) excluding public sector banks increased by £2.5bn to £1.3bn in February 2018, compared to February 2017. Public Sector Net Debt (PSND) excluding public sector banks was £1,762.6bn at the end of February 2018, equivalent to 85.1% of gross domestic product (GDP) – an increase of £68.1bn (+0.9%) on February 2017. In summary, PSNB excluding public sector banks is currently tracking below that of the last financial year with the Office for Budget Responsibility's (OBR) revising their official forecast for the current financial year down to £45.2bn from £49.9bn at the spring statement.

The Monetary Policy Committee (MPC) voted to keep interest rates unchanged, however two of its policy makers (Ian McCafferty and Michael Saunders) voted for an immediate rate rise. Minutes from the meeting said that “ongoing tightening” was likely to be needed to return inflation back to target; adding strength to Mark Carney's comments last month that “rates might need to go up faster than expected”.

Rounding off the month, the final estimate for Q4 GDP was left unrevised at 0.4% on a quarterly basis and 1.4% on an annual basis, matching consensus expectations. Additionally, growth in business investment was revised up to 0.3% from 0%; as a whole, net trade made its first positive contribution to growth since 2012.

In the Eurozone, the final reading of Q4 GDP was left unrevised at 0.6%, slightly lower than Q3's 0.7%. The expansion was driven mainly by net exports. Annual growth was also confirmed at 2.7% for Q4, with growth for the Eurozone economy for 2017 as a whole increasing by 2.5%. Following their March meeting, the European Central Bank's (ECB) only change was the removal of their previous pledge to “increase the Asset Purchase Programme (AAP) in terms of size and/or duration” if needed. Eurozone inflation fell to 1.1% in February, down from the 1.3% seen in January with the highest contribution to inflation coming from services, followed by food. Lastly, Eurozone unemployment held steady in January at 8.6%, the lowest rate recorded in the Eurozone since December 2008.

The US saw a significant 313,000 increase in non-farm payrolls in February (the biggest in 18 months) together with a 54,000 positive revision to gains in the preceding two months. Unemployment, however, remained unchanged at 4.1% as an increase in people actually looking for work (the “participation rate”) offset the actual increase in jobs. Boosted by a surge in clothing prices, inflation

posted a 0.2% monthly gain for February and a 2.2% annual rise, from 0.5% and 2.1% respectively the month prior. These strong figures paved the way for the Fed's unanimous decision to raise interest rates by another 25 basis points to 1.50%-1.75%, with comments reiterating the need for "further gradual" hikes. The final estimate for Q4 GDP was revised upwards to a 2.9% annualised rate, from the previously reported 2.5%. The upward revision reflected a lower level of inventory reduction through the quarter.

Sterling opened the month at \$1.377 against the US Dollar and closed the month at \$1.402. Against the Euro, Sterling opened at €1.122 and closed at €1.138.

Housing

Nationwide revealed house prices unexpectedly fell during March, down 0.2% on the month. Annually, house prices rose 2.1% - weaker than forecasts of 2.6% and slowing from February's 2.2% increase. Elsewhere, Halifax reported that at 1.8%, house prices rose at their slowest pace in nearly five years in the three months to February. This was a drop from the 2.2% recorded the month prior, while in

Forecast

Neither Link Asset Services (LAS) nor Capital Economics (CE) changed their bank rate forecasts during March. LAS suggest that the next interest rate rise will be to 0.75% in Q2 2018, with further rises of 25 basis points in Q4 2018 and again in Q4 2019. Capital Economics' forecasts continue to suggest further rises of 25 basis points in Q2 2018, Q3 2018, Q4 2018, Q2 2019 and Q4 2019.

Bank Rate	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Link Asset Services	0.75%	0.75%	1.00%	1.00%	1.00%
Capital Economics	0.75%	1.00%	1.25%	1.25%	1.50%

Lincolnshire County Council

Current Investment List

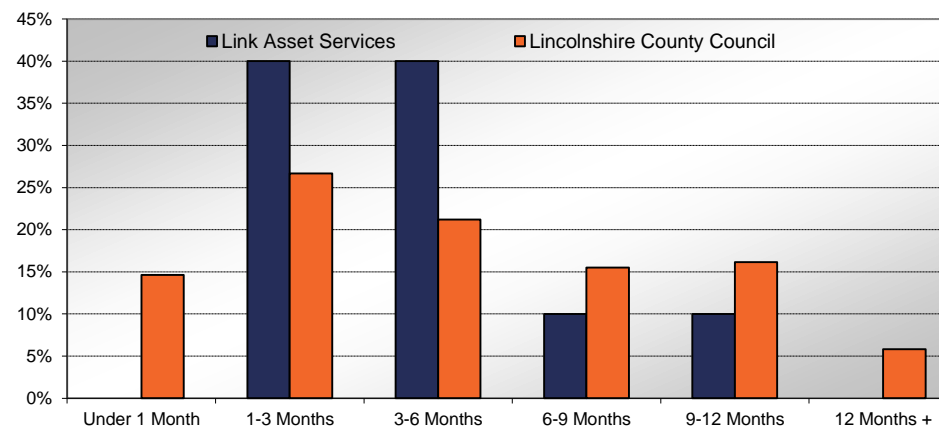
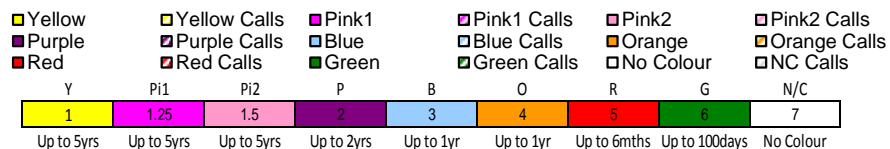
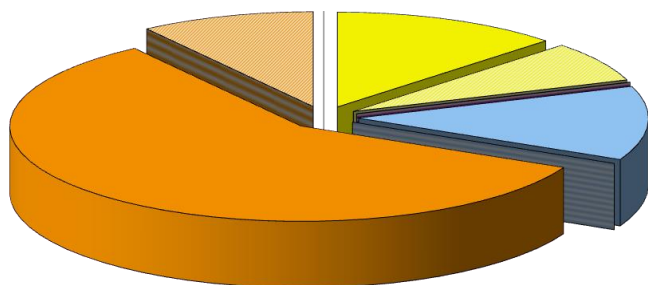
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Standard Life	17,740,000	0.46%		MMF	AAA	0.000%
The Royal Bank of Scotland Plc	5,000,000	0.70%	11/04/2017	10/04/2018	BBB+	0.005%
The Royal Bank of Scotland Plc	5,000,000	0.68%	21/04/2017	13/04/2018	BBB+	0.006%
HSBC Bank Plc	10,000,000	0.60%		Call30	AA-	0.002%
The Royal Bank of Scotland Plc	4,000,000	0.68%	08/05/2017	04/05/2018	BBB+	0.016%
The Royal Bank of Scotland Plc	6,000,000	0.64%	17/05/2017	08/05/2018	BBB+	0.018%
DBS Bank Ltd	5,000,000	0.52%	26/05/2017	11/05/2018	AA-	0.003%
Bank of Scotland Plc	5,000,000	0.65%	20/11/2017	21/05/2018	A	0.008%
Commonwealth Bank of Australia	5,000,000	0.52%	26/05/2017	25/05/2018	AA-	0.004%
The Royal Bank of Scotland Plc	5,000,000	0.66%	28/06/2017	27/06/2018	BBB+	0.041%
Cooperatieve Rabobank U.A.	3,925,000	0.50%	29/06/2017	28/06/2018	A+	0.014%
UBS AG	9,800,000	0.53%	28/07/2017	28/06/2018	A+	0.014%
HSBC Bank Plc	10,000,000	0.63%		Call90	AA-	0.006%
Commonwealth Bank of Australia	10,000,000	0.52%	30/06/2017	29/06/2018	AA-	0.006%
Australia and New Zealand Banking Group Ltd	5,000,000	0.50%	30/06/2017	29/06/2018	AA-	0.006%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	5,000,000	0.54%	05/07/2017	04/07/2018	A	0.015%
Australia and New Zealand Banking Group Ltd	5,000,000	0.50%	14/07/2017	13/07/2018	AA-	0.007%
Australia and New Zealand Banking Group Ltd	6,650,000	0.50%	20/07/2017	19/07/2018	AA-	0.007%
Australia and New Zealand Banking Group Ltd	3,350,000	0.48%	03/08/2017	02/08/2018	AA-	0.008%
Cooperatieve Rabobank U.A.	10,000,000	0.55%	15/09/2017	14/09/2018	A+	0.026%
The Royal Bank of Scotland Plc	1,125,000	0.81%	07/02/2018	17/09/2018	BBB+	0.079%
The Royal Bank of Scotland Plc	810,000	0.80%	07/02/2018	17/09/2018	BBB+	0.079%
The Royal Bank of Scotland Plc	1,230,000	0.79%	09/02/2018	17/09/2018	BBB+	0.079%
The Royal Bank of Scotland Plc	2,268,000	0.80%	09/02/2018	17/09/2018	BBB+	0.079%
UBS AG	5,000,000	0.52%	19/09/2017	18/09/2018	A+	0.026%
Canadian Imperial Bank of Commerce	6,500,000	0.55%	19/09/2017	18/09/2018	A+	0.026%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	2,755,000	0.59%	19/09/2017	18/09/2018	A	0.026%
Bank of Scotland Plc	5,000,000	0.75%		Call175	A	0.027%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	6,325,000	0.70%	30/10/2017	29/10/2018	A	0.033%
Toronto Dominion Bank	6,900,000	0.69%	01/11/2017	31/10/2018	AA-	0.014%
UBS AG	5,200,000	0.74%	20/11/2017	19/11/2018	A+	0.036%
United Overseas Bank Ltd	6,775,000	0.68%	24/11/2017	23/11/2018	AA-	0.015%
The Royal Bank of Scotland Plc	2,000,000	0.78%	23/01/2018	27/11/2018	BBB+	0.112%
North Tyneside Metropolitan Borough Council	3,800,000	0.75%	11/12/2017	10/12/2018	AA	0.016%
Eastleigh Borough Council	3,950,000	0.90%	14/03/2018	14/12/2018	AA	0.016%

Lincolnshire County Council

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
North Tyneside Metropolitan Borough Council	5,000,000	0.75%	20/12/2017	19/12/2018	AA	0.017%
Liverpool City Council	5,000,000	0.70%	13/01/2017	11/01/2019	AA	0.018%
United Overseas Bank Ltd	4,675,000	0.68%	15/01/2018	14/01/2019	AA-	0.018%
Commonwealth Bank of Australia	5,000,000	0.70%	26/01/2018	25/01/2019	AA-	0.019%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	5,920,000	0.86%	02/03/2018	01/03/2019	A	0.052%
DBS Bank Ltd	5,000,000	0.99%	21/03/2018	20/03/2019	AA-	0.023%
Toronto Dominion Bank	6,000,000	1.03%	27/03/2018	26/03/2019	AA-	0.023%
DBS Bank Ltd	5,000,000	1.00%	28/03/2018	27/03/2019	AA-	0.023%
DBS Bank Ltd	5,000,000	1.00%	29/03/2018	28/03/2019	AA-	0.023%
Doncaster Metropolitan Borough Council	5,000,000	0.77%	20/04/2017	05/04/2019	AA	0.024%
Cheshire East Council	5,000,000	0.85%	20/02/2018	08/04/2019	AA	0.024%
Bournemouth Borough Council	5,000,000	0.71%	29/09/2017	20/09/2019	AA	0.033%
Total Investments	£257,698,000	0.66%				0.018%

Portfolio Composition by Link Asset Services' Suggested Lending Criteria



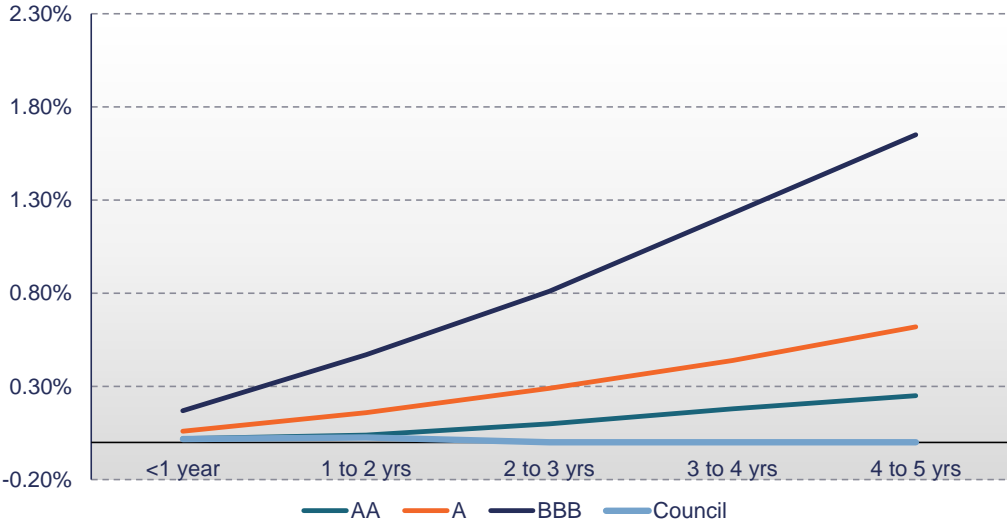
Portfolios weighted average risk number = **3.29**

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

		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	19.59%	£50,490,000	35.14%	£17,740,000	6.88%	0.66%	221	340	340	524
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	12.59%	£32,433,000	0.00%	£0	0.00%	0.70%	72	334	72	334
Orange	67.82%	£174,775,000	14.30%	£25,000,000	9.70%	0.65%	170	317	184	356
Red	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
100.00%		£257,698,000	16.59%	£42,740,000	16.59%	0.66%	167	323	191	378

Investment Risk and Rating Exposure

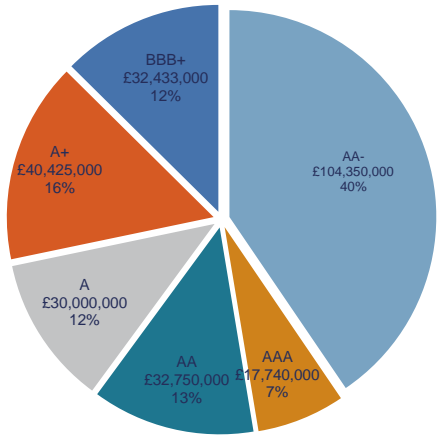
Investment Risk Vs. Rating Categories



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	0.02%	0.04%	0.10%	0.18%	0.25%
A	0.06%	0.16%	0.29%	0.44%	0.62%
BBB	0.17%	0.47%	0.81%	1.23%	1.65%
Council	0.018%	0.027%	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
01/03/2018	1589	Nationwide Building Society	United Kingdom	Long Term Rating downgraded to 'A' from 'A+', Outlook changed to Stable from Negative. Short Term Rating affirmed.
21/03/2018	1592	Abbey National Treasury Services Plc	United Kingdom	Long Term and Short Term Ratings affirmed, Long Term Rating removed from Positive Watch and placed on Stable Outlook.

Lincolnshire County Council

Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
08/03/2018	1590	Goldman Sachs International Bank	United Kingdom	Long Term and Short Term Ratings affirmed, Outlook on Long Term Rating changed to Negative from Stable.
28/03/2018	1593	Cooperatieve Rabobank U.A.	Netherlands	Long Term Rating downgraded to 'Aa3' from 'Aa2', Outlook changed to Stable from Negative. Short Term Rating affirmed.

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
01/03/2018	1588	Nationwide Building Society	United Kingdom	Long Term Rating affirmed at 'A', Outlook changed to Positive from Stable. Short Term Rating affirmed at 'A-1'.
19/03/2018	1591	NRW.BANK	Germany	Long Term and Short Term Ratings affirmed, Outlook on Long Term Rating changed to Positive from Stable.

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