

# Lincolnshire County Council

## Monthly Investment Analysis Review

June 2018

**General Economy**

The data releases for the month began with May's Markit/CIPS Manufacturing PMI, which picked up speed for the first time in six months - rising to 54.4, from 53.9 in April. The survey suggests that the sector is putting in a strong performance in Q2, after the poor start to the year. However, forward looking indicators convey that the sector probably will not be able to sustain such strong rates of growth in the months ahead. Construction PMI, however, maintained its modest recovery from the dent caused by the Beast from the East - but worries about Brexit have caused some projects to be put on hold. Another contributing factor to the worry for firms is the higher fuel and steel prices pushing up input costs. Despite these concerns, the headline reading remained steady on the month at 52.5, exceeding expectations of a slight downward movement to 52.0. Services PMI also showed the economy picking up speed, giving the Bank of England (BoE) some reassurance it can get back to its plan to raise interest rates. The index rose to a three-month high of 54.0 in May, a full point above the forecast of 53.0 and an even greater increase from April's figure of 52.8. This provided further evidence that the economy's slow start to 2018 was only temporary and can be predominantly chalked up to the weather.

Dampening some of the growing market expectation of a near-term rate increase was news that British workers' wages grew more slowly in the three months to April. The figure, excluding bonuses, rose 2.8% year-on-year (y/y) against expectations of 2.9%, with the monthly rate of April just 2.5%, its weakest since November. Nevertheless, the overall employment situation in the UK remains robust, with the unemployment figure holding its four-decade low of 4.2% in the three months to April, while the number of people in work rose by a larger than expected 146,000 - 30,000 more than the consensus forecast.

British consumer price inflation (CPI) unexpectedly held at a one-year low last month of 2.4% y/y –below forecasts of a slight rise to 2.5%. However, rising oil prices suggest an increase could be on its way; fuel prices increased by 3.8% in May, with the BoE also commenting that they expect inflation to rise over the coming months due to both the rise in fuel prices as well as higher energy bills before resuming a steady decline back to its 2% target.

Elsewhere, retail sales saw a jump for the second month in a row in May, far outstripping expectations as the Royal Wedding and warm weather helped shoppers put a winter slump behind them. On the month, sales rose by 1.3% in May, after an upwardly-revised 1.8% in April – exceeding all forecasts which had predicted a 0.5% rise. On the year, the rate was 3.9%, which is the biggest rise in more than a year and, again, above all forecasts. After suffering a squeeze on their spending power since the Brexit vote, the BoE expects consumers to begin to feel the benefit of a fall in inflation paired with rising wages.

May's Public Finance figures saw borrowing fall more than expected, with Britain's government recording a smaller budget deficit than consensus expectations. The deficit stood at £5bn in May, compared with £7bn the year previously. In the financial year to date, the deficit totals £11.8bn - 26% lower than this time last year – however it should be noted it is rarely possible to get a reliable view on full-year borrowing trends at this early stage and that early months are, more often than not, subject to material revisions.

June's Monetary Policy Committee (MPC) meeting brought a surprise with the BoE's chief economist Andy Haldane unexpectedly joining the minority by voting for an immediate rate hike, resulting in a 6-3 vote to maintain the current interest rate level; polls expected a 7-2 split. The reason for the change of heart was down to concerns over recent pay deals and labour demand raising the possibility of wages rising faster than expected. For some commentators, this opened the door further to a rate rise in August's meeting, with market expectations of a hike rising from around 50%, per-meeting to around 70% by the close of the month. At the meeting, the MPC also reaffirmed their view that first-quarter weakness was temporary and due to the Beast from the East.

The final reading of first quarter GDP growth saw an upward revision to 0.2% from initial estimates of 0.1%, following underlying revisions to construction output.. The yearly figure for GDP growth, however, remained the same at 1.2% - but this quarterly revision added to market expectations of a rate hike at August's meeting. Note that the Bank of England's Inflation Report predicted that quarterly growth will pick up to 0.4% in Q2, as the economy rebounds from February and March's "snow-down".

Over in the EU, Q1 GDP reported a 0.4% q/q increase, confirming its earlier estimate. Reduced trade contributed to the slower pace of expansion; Q4 2017 saw gains of 0.7% q/q. The European Central Bank (ECB) meeting saw its Governing Council vote to keep interest rates unchanged, but added that they expect the monthly pace of net asset purchases to be reduced to €15bn from September 2018 until the end of December 2018, with purchases then ending. CPI rose by 1.9% y/y in May, pumped up by higher costs of energy, food and services, from the upwardly-revised 1.3% in April.

In the US, the unemployment rate edged down to 3.8% in May with nonfarm payrolls increasing by 223,000, with a healthy 0.3% m/m rise in average hourly earnings. The Federal Reserve's Open Market Committee (FOMC) saw the labour market continue to strengthen with economic activity rising at a solid rate, resulting in the Committee raising the Federal Funds Rate to 1.75%-2.00% from 1.50%-1.75%. The Committee expects that further gradual increases in the target range will be consistent with sustained expansion of economic activity. The economy slowed more than previously estimated in Q1 amid the weakest performance in consumer spending in nearly 5 years – however, growth appears to have since gained momentum after the weaker start to the year on the back of the robust labour market and tax cuts. The third estimate of GDP showed an increase of 2.0% y/y for the first quarter, down 0.2% from the 2.2% previously reported.

## Housing

Nationwide revealed that house prices rose at their slowest annual rate in five years in June – rising 2.0% y/y (down from 2.4% in May) and 0.5% m/m – and look set to remain subdued due to modest economic growth and the squeeze on household budgets. According to Halifax, house prices rebounded more than expected in May – rising 1.5% after a 3.1% slump the previous month. Year on year, prices are 1.9% higher, matching expectations. However, Halifax also added that the broader market picture remains subdued.

## Forecast

Neither Link Asset Services (LAS) nor Capital Economics made changes to their bank rate forecasts during June. LAS suggests that the next interest rate rise will be to 0.75% in the final quarter of this year, with further rises of 25 basis points in Q3 2019, Q2 2020 and Q4 2020. Capital Economics expect the next rate rise to 0.75% will be in August, with further rises of 25 basis points in Q4 2018, Q2 2019, Q4 2019 and Q4 2020.

Bank Rate												
	NOW	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	0.50%	0.50%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
Capital Economics	0.50%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.50%	1.50%	1.75%	-

# Lincolnshire County Council

## Current Investment List

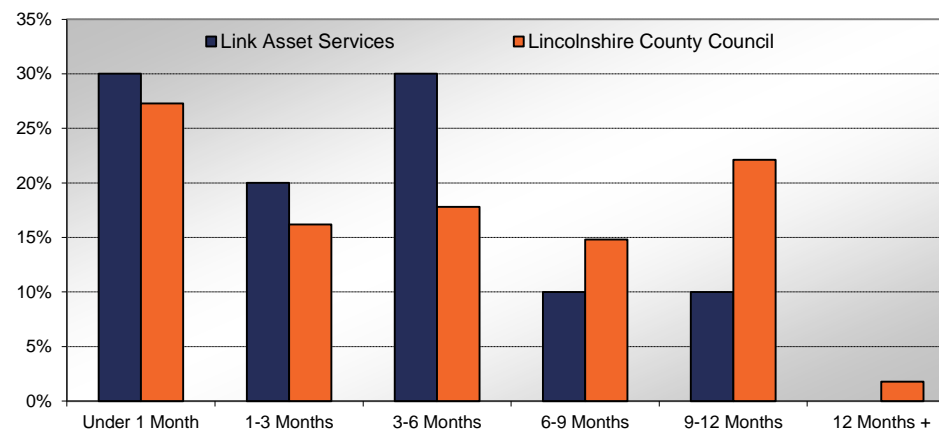
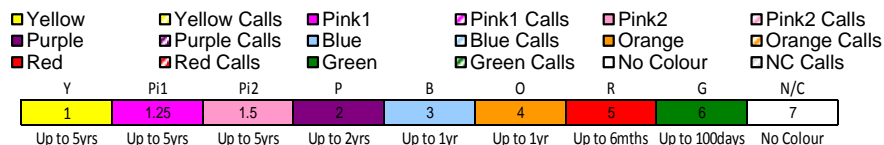
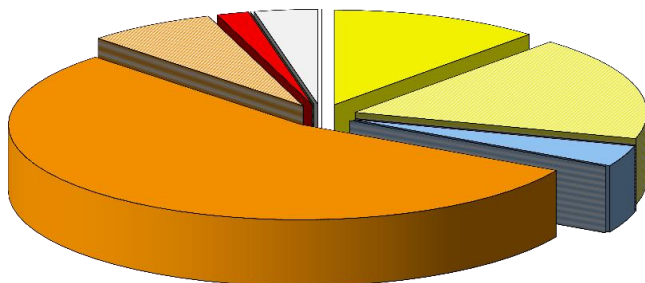
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Standard Life	20,000,000	0.53%		MMF	AAA	0.000%
MMF Morgan Stanley	20,000,000	0.51%		MMF	AAA	0.000%
MMF Insight	9,915,000	0.51%		MMF	AAA	0.000%
Landesbank Hessen-Thüringen Girozentrale (Helaba)	5,000,000	0.54%	05/07/2017	04/07/2018	A	0.001%
Australia and New Zealand Banking Group Ltd	5,000,000	0.50%	14/07/2017	13/07/2018	AA-	0.001%
Australia and New Zealand Banking Group Ltd	6,650,000	0.50%	20/07/2017	19/07/2018	AA-	0.001%
HSBC Bank Plc	10,000,000	0.60%		Call30	AA-	0.002%
Australia and New Zealand Banking Group Ltd	3,350,000	0.48%	03/08/2017	02/08/2018	AA-	0.002%
Coöperatieve Rabobank U.A.	10,000,000	0.55%	15/09/2017	14/09/2018	A+	0.011%
NatWest Markets Plc (NRFB)	1,125,000	0.81%	07/02/2018	17/09/2018	BBB	0.034%
NatWest Markets Plc (NRFB)	810,000	0.80%	07/02/2018	17/09/2018	BBB	0.034%
NatWest Markets Plc (NRFB)	1,230,000	0.79%	09/02/2018	17/09/2018	BBB	0.034%
NatWest Markets Plc (NRFB)	2,268,000	0.80%	09/02/2018	17/09/2018	BBB	0.034%
NatWest Markets Plc (NRFB)	1,673,000	1.17%	23/04/2018	17/09/2018	BBB	0.034%
NatWest Markets Plc (NRFB)	700,000	1.17%	23/04/2018	17/09/2018	BBB	0.034%
UBS AG	5,000,000	0.52%	19/09/2017	18/09/2018	A+	0.012%
Canadian Imperial Bank of Commerce	6,500,000	0.55%	19/09/2017	18/09/2018	A+	0.012%
Landesbank Hessen-Thüringen Girozentrale (Helaba)	2,755,000	0.59%	19/09/2017	18/09/2018	A	0.012%
HSBC Bank Plc	10,000,000	0.85%		Call90	AA-	0.006%
Standard Chartered Bank	5,000,000	0.90%	20/04/2018	19/10/2018	A	0.016%
United Overseas Bank Ltd	5,000,000	0.81%	20/04/2018	22/10/2018	AA-	0.008%
Landesbank Hessen-Thüringen Girozentrale (Helaba)	6,325,000	0.70%	30/10/2017	29/10/2018	A	0.018%
Toronto Dominion Bank	6,900,000	0.69%	01/11/2017	31/10/2018	AA-	0.008%
UBS AG	5,200,000	0.74%	20/11/2017	19/11/2018	A+	0.021%
United Overseas Bank Ltd	6,775,000	0.68%	24/11/2017	23/11/2018	AA-	0.010%
NatWest Markets Plc (NRFB)	2,000,000	0.78%	23/01/2018	27/11/2018	BBB	0.065%
North Tyneside Metropolitan Borough Council	3,800,000	0.75%	11/12/2017	10/12/2018	AA	0.011%
Eastleigh Borough Council	3,950,000	0.90%	14/03/2018	14/12/2018	AA	0.011%
North Tyneside Metropolitan Borough Council	5,000,000	0.75%	20/12/2017	19/12/2018	AA	0.012%
Liverpool City Council	5,000,000	0.70%	13/01/2017	11/01/2019	AA	0.013%
United Overseas Bank Ltd	4,675,000	0.68%	15/01/2018	14/01/2019	AA-	0.013%
Commonwealth Bank of Australia	5,000,000	0.70%	26/01/2018	25/01/2019	AA-	0.014%
Landesbank Hessen-Thüringen Girozentrale (Helaba)	5,920,000	0.86%	02/03/2018	01/03/2019	A	0.036%
DBS Bank Ltd	5,000,000	0.99%	21/03/2018	20/03/2019	AA-	0.018%
Toronto Dominion Bank	6,000,000	1.03%	27/03/2018	26/03/2019	AA-	0.018%
DBS Bank Ltd	5,000,000	1.00%	28/03/2018	27/03/2019	AA-	0.018%
DBS Bank Ltd	5,000,000	1.00%	29/03/2018	28/03/2019	AA-	0.018%

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Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Doncaster Metropolitan Borough Council	5,000,000	0.77%	20/04/2017	05/04/2019	AA	0.019%
Cheshire East Council	5,000,000	0.85%	20/02/2018	08/04/2019	AA	0.019%
DBS Bank Ltd	5,000,000	0.85%	11/05/2018	10/05/2019	AA-	0.021%
Canadian Imperial Bank of Commerce	3,500,000	0.91%	14/05/2018	13/05/2019	A+	0.047%
Bank of Scotland Plc (RFB)	6,000,000	1.00%	15/05/2018	15/05/2019	A+	0.047%
Bank of Scotland Plc (RFB)	6,000,000	1.00%	22/05/2018	22/05/2019	A+	0.048%
Bank of Scotland Plc (RFB)	8,000,000	1.00%	25/05/2018	28/05/2019	A+	0.049%
United Overseas Bank Ltd	3,550,000	0.92%	28/06/2018	27/06/2019	AA-	0.024%
National Westminster Bank Plc (RFB)	10,000,000	0.97%	29/06/2018	28/06/2019	A-	0.054%
Australia and New Zealand Banking Group Ltd	5,000,000	0.92%	29/06/2018	28/06/2019	AA-	0.024%
Commonwealth Bank of Australia	5,000,000	0.90%	29/06/2018	28/06/2019	AA-	0.024%
Bournemouth Borough Council	5,000,000	0.71%	29/09/2017	20/09/2019	AA	0.029%
<b>Total Investments</b>	<b>£280,571,000</b>	<b>0.74%</b>				<b>0.016%</b>

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



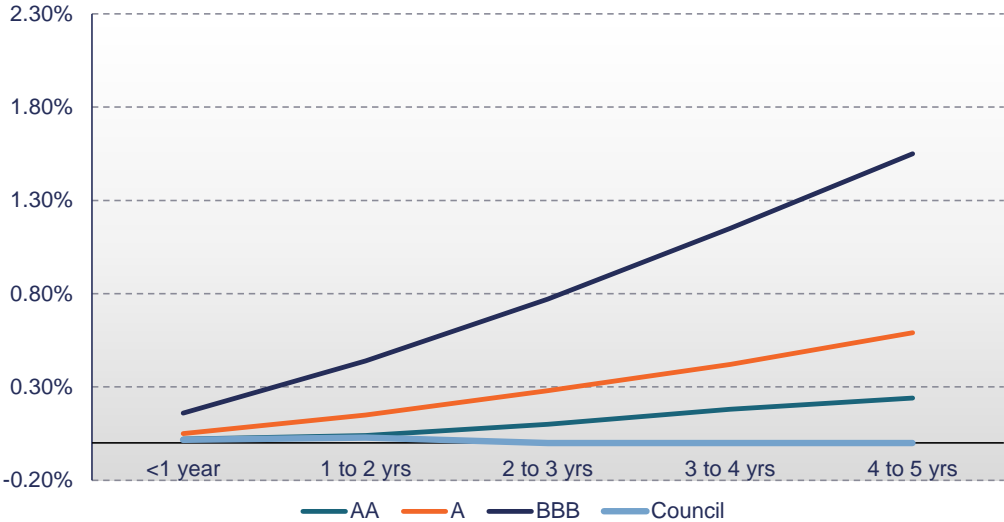
Portfolios weighted average risk number = **3.20**

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/USDBFs	
									WAM	WAM at Execution
Yellow	29.46%	£82,665,000	60.38%	£49,915,000	17.79%	0.62%	99	208	249	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	3.56%	£10,000,000	0.00%	£0	0.00%	0.97%	363	364	363	364
Orange	61.70%	£173,100,000	11.55%	£20,000,000	7.13%	0.76%	176	324	191	358
Red	1.78%	£5,000,000	0.00%	£0	0.00%	0.90%	111	182	111	182
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	3.50%	£9,806,000	0.00%	£0	0.00%	0.89%	93	221	93	221
<b>Total</b>	<b>100.00%</b>	<b>£280,571,000</b>	<b>24.92%</b>	<b>£69,915,000</b>	<b>24.92%</b>	<b>0.74%</b>	<b>156</b>	<b>285</b>	<b>207</b>	<b>374</b>

Investment Risk and Rating Exposure

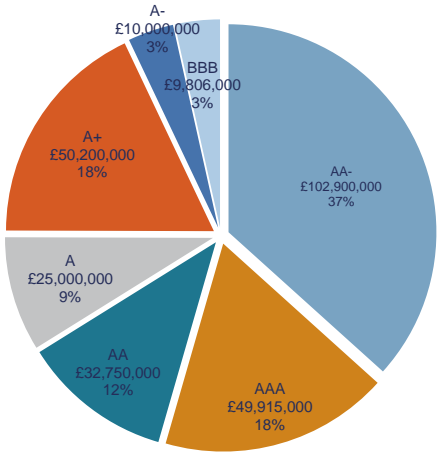
Investment Risk Vs. Rating Categories



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	0.02%	0.04%	0.10%	0.18%	0.24%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%
Council	0.016%	0.029%	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
05/06/2018	1614	Qatar Sovereign	Qatar	Outlook on the Sovereign Rating changed to Stable from Negative
13/06/2018	1615	Qatar National Bank	Qatar	Outlook on the Long Term Rating changed to Stable from Negative
22/06/2018	1618	Goldman Sachs International Bank	UK	New Support Rating assigned at '1'
22/06/2018	1619	Bank of America N.A.	US	Long Term Rating upgraded to 'AA-' from 'A+'. Short Term Rating upgraded to 'F1+' from 'F1'. Viability Rating upgraded to 'a+' from 'a'
22/06/2018	1619	JPMorgan Chase Bank N.A.	US	Long Term Rating upgraded to 'AA' from 'AA-'. Viability Rating upgraded to 'aa-' from 'a+'
22/06/2018	1620	Deutsche Bank AG	Germany	Outlook on the Long Term Rating changed to Negative from Stable
22/06/2018	1620	Credit Suisse AG	Switzerland	Outlook on the Long Term Rating changed to Positive from Stable

## Lincolnshire County Council

### Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
18/06/2018	1616	UBS AG	Switzerland	Long Term Rating upgraded to 'Aa2' from 'Aa3', removed from Positive Watch and placed on Stable Outlook
18/06/2018	1616	UBS Limited	UK	Long Term Rating upgraded to 'Aa3' from 'A1', removed from Positive Watch and placed on Stable Outlook
21/06/2018	1617	Clydesdale Bank PLC	UK	Outlook on the Long Term Rating was removed from Positive and placed on Negative Watch
25/06/2018	1621	KBC Bank N.V.	Belgium	Long Term Rating upgraded to 'Aa3' from 'A1'

## Lincolnshire County Council

### Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
01/06/2018	1613	Deutsche Bank AG	Germany	Long Term Rating downgraded to 'BBB+' from 'A-', removed from Negative Watch and placed on Stable Outlook. Colour based on Ratings changed to 'No Colour' from 'Green'
25/06/2018	1622	Credit Suisse AG	Switzerland	Outlook on the Long Term Rating changed to Positive from Stable
28/06/2018	1623	Royal Bank of Canada	Canada	Outlook on the Long Term Rating changed to Stable from Negative

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