

Lincolnshire County Council

Monthly Investment Analysis Review

September 2018

General Economy

The data releases for the month began with August's Markit/CIPS Manufacturing Purchasing Managers Index (PMI) activity survey. This saw a decrease from the previous figure of 53.8, to a weaker 52.8. Construction PMI also took a hit, as it went down to 52.9 from 55.8, a huge fall and far lower than what was predicted. However, Services PMI was a stronger performer, rising from 53.5 to 54.3. GDP figures were stronger than expected; the m/m measure for July came in at 0.3%, an increase from 0.1% previously and above forecasts. The y/y measure was 1.6%, beating both the previous figure and forecasts. Brexit-related uncertainty is still a factor but the data provided a positive sign that growth has improved at the start of the quarter.

In terms of the UK's trade balance, the overall deficit decreased to £9.97bn. This was a drop of nearly £2bn, showing a narrowing of the current account deficit. The non-EU figure also fell to £2.8bn. Both of these figures beat forecasts, and provide evidence of a rebalancing of the UK's trade.

Unemployment remained at 4% for July, in line with forecasts and still at the lowest level since 1975. After a long wait, this continually low level seems to finally be feeding into wage growth, with an increase 2.9% excluding bonuses. The 3M y/y figure is 2.6% including bonuses, both increases from the previous month. Whether the low unemployment rate will have a more sustained impact on wage growth is yet to be seen.

In mid-September, the Bank of England's Monetary Policy Committee chose to hold the base rate at 0.75% following the August hike. Bank Governor Mark Carney reiterated that the Committee is in no rush to raise rates back to more "normal" levels, and with Brexit uncertainty coming to the fore, markets are showing little to no expectation of a further rate hike until Q2/Q3 2019.

The inflation figures for August came out far higher than expected, with Consumer Price Index (CPI) y/y at 2.7%, up from 2.4% in July. The rise in inflation was driven by particularly volatile components so forecasters expect the pickup to be temporary. The monthly CPI figure was 0.7%, up from 0.5%, while Core CPI y/y rose unexpectedly to 2.1% from a previous figure of 1.8%. Despite the increase in price pressures, market participants continued to play down any expectations of a near-term rate hike. Their belief is primarily based on Brexit uncertainty and the fact that inflation is likely to fall towards the Bank's inflation target of 2% through this year and 2019.

Retail sales were expected to show negative growth in August after a strong summer of good weather. However, the figure surprisingly stayed positive at 0.3% m/m, and the y/y figure only fell to 3.3%, well above forecasts of a drop to 2.3%. Within the overall data, food sales did register a small fall, but this was more than offset by the largest monthly increase in sales of household goods since May 2016.

In terms of public finances, the data was disappointing for August. Public sector net borrowing excluding banks rose to £6.753bn, up from £3.4bn, and the figure including banks rose by slightly less, to £5.889bn. There are increasing expectations that the OBR may lower its borrowing forecast in November, which could allow the Chancellor to increase spending in his upcoming budget, without having to raise income from other sources or make cuts elsewhere.

GDP figures at the end of the month were another source of disappointment for the UK. While there was no change to the Q2 q/q figure (0.4%), Q1 was revised down from 0.2% to just 0.1%. Furthermore, the Q2 y/y figure was revised downwards to 1.2% from 1.3%.

The Eurozone's Q2 y/y GDP figure was also revised lower, down from 2.2% to 2.1%. Meanwhile, US y/y GDP remained unchanged, at 4.2% evidencing the effects of President Trump's expansionary fiscal policy, and paved the way for the US Federal Reserve to action a rate rise at the end of September. Accompanying the move, the Fed's "dot plot" of member expectations for future policy rates suggested another rate hike may occur in 2018, and potentially another three in 2019.

Housing

The Halifax house prices measure showed a 0.1% m/m increase in August, rebounding from a negative value in July. The y/y measure showed a 3.7% increase, an uplift from 3.3% previously but lower than the 3.9% forecast. House.

Nationwide also showed a small rise in m/m house prices, up to 0.3%, whilst the y/y figure also increased by 0.1% to 2%.

Currency

Sterling opened the month at \$1.29 against the US Dollar and closed at \$1.30, with varied fluctuations throughout the period. Against the Euro, Sterling opened at €1.115 and closed at €1.125.

Forecast

Link Asset Services suggests that the next interest rate rise will be to 1% in the third quarter of 2019, with further rises of 25 basis points in Q2 2020, and Q4 2020. Capital Economics expect the next rate rise will be Q2 2019, followed by another rise in Q4 2019 and a further change in Q4 2020.

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

Lincolnshire County Council

Current Investment List

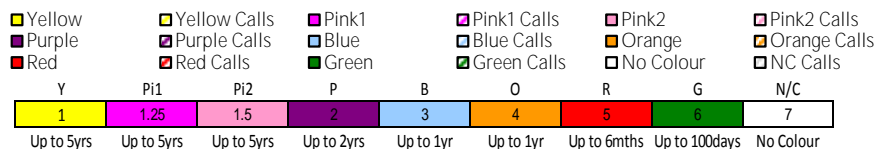
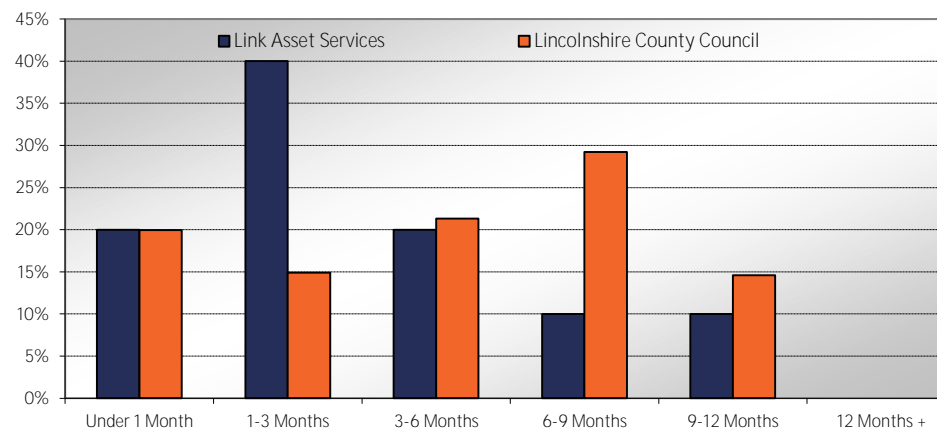
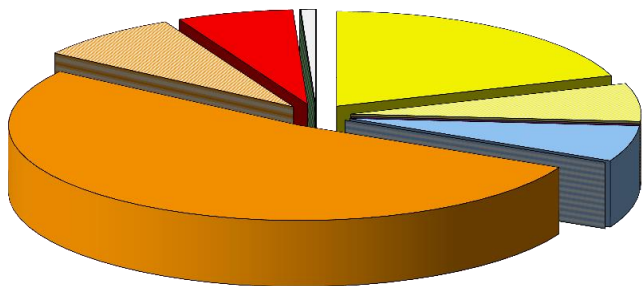
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Deutsche	15,950,000	0.70%		MMF	AAA	0.000%
Standard Chartered Bank	5,000,000	0.90%	20/04/2018	19/10/2018	A	0.003%
United Overseas Bank Ltd	5,000,000	0.81%	20/04/2018	22/10/2018	AA-	0.001%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	6,325,000	0.70%	30/10/2017	29/10/2018	A	0.004%
HSBC UK Bank Plc (RFB)	10,000,000	0.82%		Call30	AA-	0.002%
Toronto Dominion Bank	6,900,000	0.69%	01/11/2017	31/10/2018	AA-	0.002%
UBS AG	5,200,000	0.74%	20/11/2017	19/11/2018	A+	0.007%
United Overseas Bank Ltd	6,775,000	0.68%	24/11/2017	23/11/2018	AA-	0.004%
NatWest Markets Plc (NRFB)	2,000,000	0.78%	23/01/2018	27/11/2018	BBB	0.025%
North Tyneside Metropolitan Borough Council	3,800,000	0.75%	11/12/2017	10/12/2018	AA	0.005%
Eastleigh Borough Council	3,950,000	0.90%	14/03/2018	14/12/2018	AA	0.005%
North Tyneside Metropolitan Borough Council	5,000,000	0.75%	20/12/2017	19/12/2018	AA	0.005%
HSBC UK Bank Plc (RFB)	10,000,000	0.88%		Call90	AA-	0.006%
Liverpool City Council	5,000,000	0.70%	13/01/2017	11/01/2019	AA	0.007%
United Overseas Bank Ltd	4,675,000	0.68%	15/01/2018	14/01/2019	AA-	0.007%
National Bank of Canada	5,000,000	0.75%	13/07/2018	14/01/2019	A	0.016%
Commonwealth Bank of Australia	5,000,000	0.70%	26/01/2018	25/01/2019	AA-	0.008%
Standard Chartered Bank	6,000,000	0.90%	27/07/2018	25/01/2019	A	0.017%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	5,920,000	0.86%	02/03/2018	01/03/2019	A	0.022%
DBS Bank Ltd	5,000,000	0.99%	21/03/2018	20/03/2019	AA-	0.012%
Toronto Dominion Bank	6,000,000	1.03%	27/03/2018	26/03/2019	AA-	0.012%
DBS Bank Ltd	5,000,000	1.00%	28/03/2018	27/03/2019	AA-	0.012%
DBS Bank Ltd	5,000,000	1.00%	29/03/2018	28/03/2019	AA-	0.012%
Doncaster Metropolitan Borough Council	5,000,000	0.77%	20/04/2017	05/04/2019	AA	0.013%
Cheshire East Council	5,000,000	0.85%	20/02/2018	08/04/2019	AA	0.013%
DBS Bank Ltd	5,000,000	0.85%	11/05/2018	10/05/2019	AA-	0.015%
Canadian Imperial Bank of Commerce	3,500,000	0.91%	14/05/2018	13/05/2019	A+	0.033%
Bank of Scotland Plc (RFB)	6,000,000	1.00%	15/05/2018	15/05/2019	A+	0.033%
London Borough of Haringey	5,000,000	0.95%	11/09/2018	17/05/2019	AA	0.015%
Bank of Scotland Plc (RFB)	6,000,000	1.00%	22/05/2018	22/05/2019	A+	0.035%
Bank of Scotland Plc (RFB)	8,000,000	1.00%	25/05/2018	28/05/2019	A+	0.035%
Cambridgeshire County Council	5,000,000	0.95%	07/09/2018	07/06/2019	AA	0.017%
United Overseas Bank Ltd	3,550,000	0.92%	28/06/2018	27/06/2019	AA-	0.018%
National Westminster Bank Plc (RFB)	10,000,000	0.97%	29/06/2018	28/06/2019	A-	0.040%
Australia and New Zealand Banking Group Ltd	5,000,000	0.92%	29/06/2018	28/06/2019	AA-	0.018%

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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Commonwealth Bank of Australia	5,000,000	0.90%	29/06/2018	28/06/2019	AA-	0.018%
Australia and New Zealand Banking Group Ltd	5,000,000	0.95%	13/07/2018	12/07/2019	AA-	0.019%
Highland Council	3,000,000	0.95%	28/08/2018	24/07/2019	AA	0.020%
Australia and New Zealand Banking Group Ltd	5,000,000	1.06%	03/08/2018	02/08/2019	AA-	0.021%
Australia and New Zealand Banking Group Ltd	5,000,000	1.04%	21/08/2018	20/08/2019	AA-	0.022%
Birmingham City Council	3,000,000	1.04%	28/08/2018	28/08/2019	AA	0.022%
Landesbank Hessen-Thüringen Girozentrale (Helaba)	5,000,000	1.02%	05/09/2018	05/09/2019	A	0.050%
National Westminster Bank Plc (RFB)	5,000,000	1.05%	07/09/2018	09/09/2019	A-	0.051%
Bournemouth Borough Council	5,000,000	0.71%	29/09/2017	20/09/2019	AA	0.024%
Total Investments	£246,545,000	0.87%				0.016%

Portfolio Composition by Link Asset Services' Suggested Lending Criteria



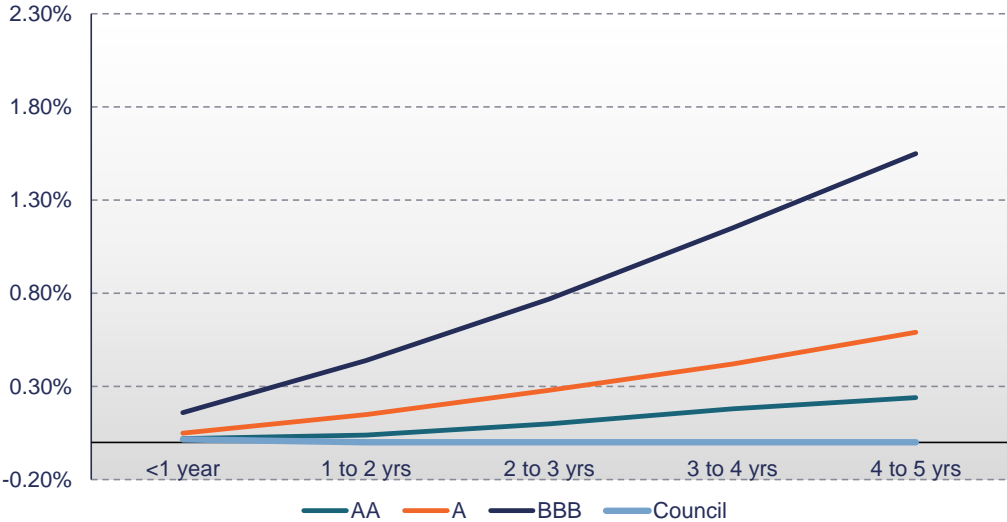
Portfolios weighted average risk number = **3.24**

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	26.24%	£64,700,000	24.65%	£15,950,000	6.47%	0.80%	146	338	193	448
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	6.08%	£15,000,000	0.00%	£0	0.00%	1.00%	295	365	295	365
Orange	60.37%	£148,845,000	13.44%	£20,000,000	8.11%	0.89%	165	317	181	357
Red	6.49%	£16,000,000	0.00%	£0	0.00%	0.85%	83	183	83	183
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.81%	£2,000,000	0.00%	£0	0.00%	0.78%	58	308	58	308
Total	100.00%	£246,545,000	14.58%	£35,950,000	14.58%	0.87%	162	317	185	365

Investment Risk and Rating Exposure

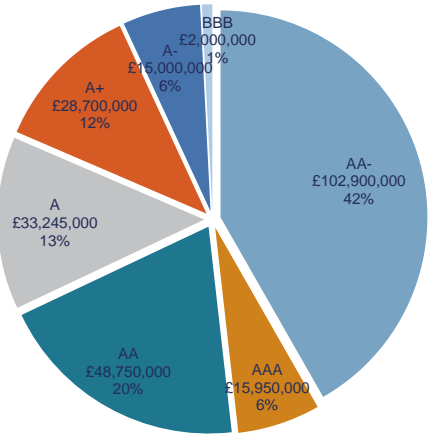
Investment Risk Vs. Rating Categories



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%	0.000%	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
25/09/2018	1641	Danske A/S	Denmark	Outlook on the Long Term Rating changed to Negative from Stable

Lincolnshire County Council

Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
21/09/2018	1640	Danske A/S	Denmark	Outlook on the Long Term Rating changed to Negative from Stable

Lincolnshire County Council

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
21/09/2018	1639	Australia Sovereign Rating	Australia	Outlook on the Long Term Rating changed to Stable from Negative
26/09/2018	1642	Danske A/S	Denmark	Outlook on the Long Term Rating changed to Negative from Positive

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