

Lincolnshire County Council

Monthly Investment Analysis Review

June 2019

Monthly Economic Summary

General Economy

June's economic data began with the May Markit/CIPS Manufacturing PMI figure. This fell to 49.4 from 53.1 the previous month, which was the steepest contraction since February 2013. The drivers of the decline were firms continuing to run down their excess inventory after stockpiling for a no-deal Brexit and the impact of the global economic slowdown. This was then compounded by Construction PMI also dropping into contraction territory (ie a reading below 50), falling to 48.6 from 50.5. The Services PMI figure provided a small saving grace, rising to 51 from 50.4. This left the Composite figure at 50.9, which indicated minimal levels of growth in the UK economy.

The UK trade deficit narrowed to £2.74bn in April, falling from an upwardly revised £6.15bn the previous month. Exports declined 4.3% to £53.47bn, but imports declined at a faster rate of 9.3% to £56.21bn, causing the lowest trade deficit since last September. Meanwhile, the UK's economy's growth rate fell; the 3m/3m rolling average GDP growth figure fell from 0.5% to 0.3% in the 3 months to April. The economy slowed in April mainly due to a large fall in car production, with Brexit uncertainty leading to planned shutdowns in automotive factories.

The Bank of England's Monetary Policy Committee (MPC) voted unanimously to keep interest rates on hold at 0.75% in June. The tone of the meeting was far more dovish than in May, as the Bank slashed its growth forecast for the three months to June to zero, amid a broader deterioration in the domestic economy allied with weaker overall global conditions.

Unemployment maintained its 3.8% rate in the three months to April, its lowest level since 1974. Meanwhile, the nominal employment figure increased by 32,000 to a record high of 32.75 million. The tight labour market showed in wage growth figures, as average earnings excluding bonuses came in at 3.4%, up from 3.3% previously. However, when bonuses were accounted for, the figure dropped to 3.1%.

CPI inflation was in line with the Bank of England's 2% target in May, decreasing from 2.1 % y/y previously. Cost pressures in factories fell to a three-year low and travel prices fell back after their Easter highs in April. The data added to market views that the Bank of England has no urgency to pursue its stated policy of gradually raising interest rates. The Core CPI figure (which strips out the more volatile components of inflation) fell to 1.7%, the lowest annual rate since January 2017, signalling that underlying inflationary pressures are contained at present. The m/m CPI figure fell to 0.3% from 0.6% in the previous month.

Retail sales fell by 0.5% in May m/m, following on from the flat reading of April. At the annual level, sales decreased to 2.3% y/y from 5.1% in April. Despite the decreasing trend, consumer spending has generally been a bright spot for the UK economy, contrasting with falling investment by businesses.

British banks approved 65,409 mortgages for new house purchases in May 2019, which was below the 66,045 figure seen in the previous month. In addition, approvals of loans secured on dwellings for re-mortgaging fell to 46,706 in May from 48,945 previously. Meanwhile, loans for other purposes increasing slightly to 14,748 from 14,425 previously.

Lincolnshire County Council

Current Investment List

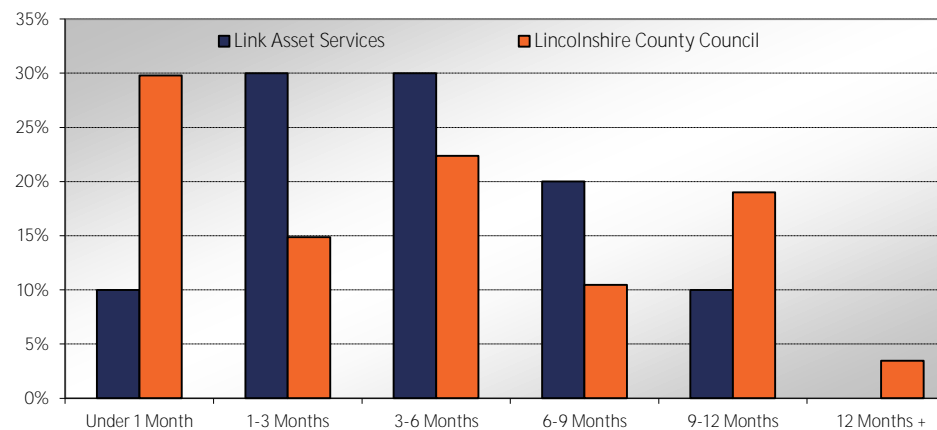
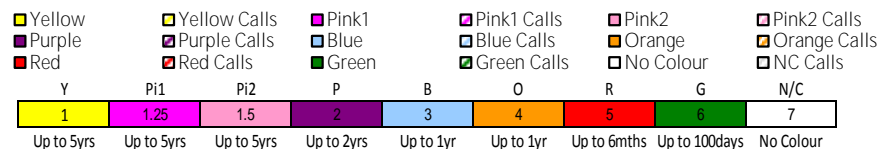
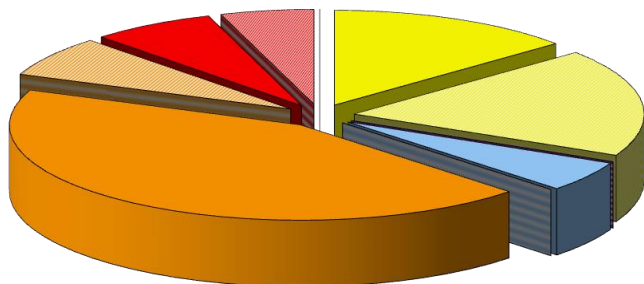
	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
	MMF Deutsche	20,000,000	0.75%		MMF	AAA	0.000%
	MMF Aberdeen Standard Investments	20,000,000	0.76%		MMF	AAA	0.000%
	MMF Morgan Stanley	13,190,000	0.74%		MMF	AAA	0.000%
	Australia and New Zealand Banking Group Ltd	5,000,000	0.95%	13/07/2018	12/07/2019	AA-	0.001%
	National Bank of Canada	5,000,000	1.00%	14/01/2019	15/07/2019	A	0.002%
	Highland Council	3,000,000	0.95%	28/08/2018	24/07/2019	AA	0.002%
	Standard Chartered Bank	10,000,000	1.06%	25/01/2019	25/07/2019	A	0.004%
	HSBC UK Bank Plc (RFB)	10,000,000	0.82%		Call30	AA-	0.002%
	Australia and New Zealand Banking Group Ltd	5,000,000	1.06%	03/08/2018	02/08/2019	AA-	0.002%
	Australia and New Zealand Banking Group Ltd	5,000,000	1.04%	21/08/2018	20/08/2019	AA-	0.003%
	Birmingham City Council	3,000,000	1.04%	28/08/2018	28/08/2019	AA	0.004%
	Landesbank Hessen-Thüringen Girozentrale (Helaba)	5,000,000	1.02%	05/09/2018	05/09/2019	A	0.010%
	National Westminster Bank Plc (RFB)	5,000,000	1.05%	07/09/2018	09/09/2019	A	0.010%
	Bournemouth Borough Council	5,000,000	0.71%	29/09/2017	20/09/2019	AA	0.005%
	HSBC UK Bank Plc (RFB)	10,000,000	0.92%		Call90	AA-	0.006%
	DBS Bank Ltd	5,000,000	0.97%	29/03/2019	30/09/2019	AA-	0.006%
	Barclays Bank Plc (NRFB)	15,000,000	0.95%		Call95	A	0.014%
	Westpac Banking Corporation	2,230,960	0.89%	12/06/2019	21/10/2019	AA-	0.007%
	London Borough of Enfield	5,000,000	1.05%	22/10/2018	21/10/2019	AA	0.007%
	Landesbank Hessen-Thüringen Girozentrale (Helaba)	6,700,000	1.12%	01/11/2018	01/11/2019	A	0.018%
	Toronto Dominion Bank	7,000,000	1.15%	06/11/2018	06/11/2019	AA-	0.009%
	Cooperatieve Rabobank U.A.	5,000,000	1.14%	12/11/2018	11/11/2019	A+	0.019%
	Toronto Dominion Bank	7,000,000	1.16%	13/11/2018	12/11/2019	AA-	0.009%
	North Tyneside Metropolitan Borough Council	3,800,000	1.15%	10/12/2018	10/12/2019	AA	0.011%
	North Tyneside Metropolitan Borough Council	3,000,000	1.15%	11/12/2018	10/12/2019	AA	0.011%
	Canadian Imperial Bank of Commerce	10,000,000	1.13%	14/12/2018	13/12/2019	A+	0.024%
	Cooperatieve Rabobank U.A.	5,000,000	1.14%	25/01/2019	24/01/2020	A+	0.030%
	Cooperatieve Rabobank U.A.	5,000,000	1.14%	25/01/2019	24/01/2020	A+	0.030%
	Staffordshire Moorlands District Council	2,000,000	1.10%	01/02/2019	31/01/2020	AA	0.014%
	Santander UK Plc	502,483	1.37%	20/02/2019	17/02/2020	A	0.033%
	Santander UK Plc	2,967,228	1.39%	20/02/2019	17/02/2020	A	0.033%
	Santander UK Plc	1,507,696	1.35%	21/02/2019	17/02/2020	A	0.033%
	DBS Bank Ltd	5,000,000	0.91%	17/06/2019	17/03/2020	AA-	0.017%
	Landesbank Hessen-Thüringen Girozentrale (Helaba)	8,300,000	1.10%	21/03/2019	20/03/2020	A	0.038%
	Cheshire East Council	5,000,000	1.15%	15/03/2019	15/04/2020	AA	0.019%
	National Westminster Bank Plc (RFB)	5,000,000	1.09%	30/04/2019	30/04/2020	A	0.044%
	Commonwealth Bank of Australia	5,000,000	0.97%	10/05/2019	08/05/2020	AA-	0.021%
	Bank of Scotland Plc (RFB)	6,000,000	1.25%	15/05/2019	15/05/2020	A+	0.046%
	Bank of Scotland Plc (RFB)	6,000,000	1.25%	22/05/2019	22/05/2020	A+	0.047%
	National Westminster Bank Plc (RFB)	5,000,000	1.01%	28/05/2019	28/05/2020	A	0.048%

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Current Investment List

	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
	Bank of Scotland Plc (RFB)	8,000,000	1.25%	28/05/2019	28/05/2020	A+	0.048%
	DBS Bank Ltd	5,000,000	0.94%	29/05/2019	29/05/2020	AA-	0.022%
	Highland Council	5,000,000	1.00%	03/06/2019	01/06/2020	AA	0.022%
	DBS Bank Ltd	5,000,000	0.93%	28/06/2019	26/06/2020	AA-	0.024%
	Australia and New Zealand Banking Group Ltd	5,000,000	1.08%	28/06/2019	30/06/2020	AA-	0.024%
	Wokingham Borough Council	5,000,000	1.42%	27/03/2019	26/03/2021	AA	0.037%
	Total Investments	£289,198,367	1.00%				0.015%

Portfolio Composition by Link Asset Services' Suggested Lending Criteria



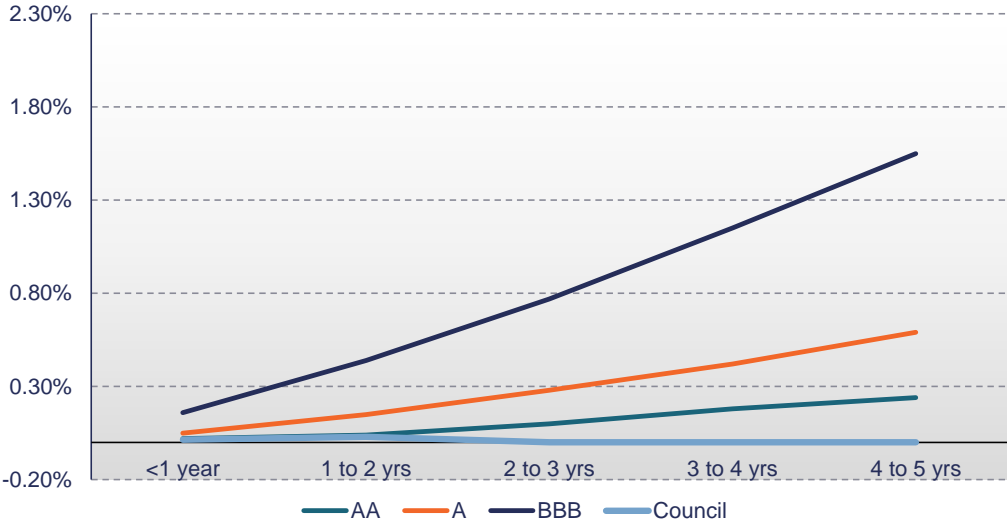
Portfolios weighted average risk number = **3.10**

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	32.15%	£92,990,000	57.20%	£53,190,000	18.39%	0.89%	98	195	228	457
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	5.19%	£15,000,000	0.00%	£0	0.00%	1.05%	236	366	236	366
Orange	50.56%	£146,230,960	13.68%	£20,000,000	6.92%	1.06%	183	310	202	350
Red	12.09%	£34,977,407	42.88%	£15,000,000	5.19%	1.05%	83	170	74	226
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
Total	100.00%	£289,198,367	30.49%	£88,190,000	30.49%	1.00%	146	259	197	360

Investment Risk and Rating Exposure

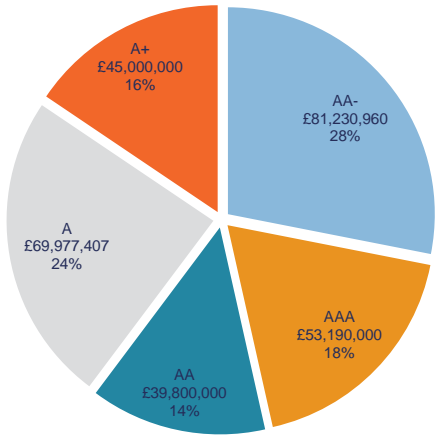
Investment Risk Vs. Rating Categories



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	0.015%	0.031%	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
03/06/2019	1685	Clydesdale Bank Plc	United Kingdom	The Long Term Rating was upgraded to 'A-' from 'BBB+' and maintained on Negative Watch.
10/06/2019	1686	Deutsche Bank AG	Germany	The Long Term Rating was downgraded to 'BBB' from 'BBB+' and the Viability Rating was downgraded to 'bbb' from 'bbb+'. The Outlook on the Long Term Rating was changed to Evolving from Negative.

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
28/06/2019	1687	Co-operative Bank PLC (The)	United Kingdom	The Long Term Rating was upgraded to 'B3' from 'Caa1' and the Outlook was changed to Positive from Stable.

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
28/06/2019	1688	ABN AMRO Bank N.V.	Netherlands	The Outlook on the Long Term Rating was changed to Stable from Positive.
28/06/2019	1688	Cooperatieve Rabobank U.A.	Netherlands	The Outlook on the Long Term Rating was changed to Stable from Positive.

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