



Lincolnshire County Council

Monthly Investment Analysis Review

December 2017

General

Compared to November, in which we saw the first rate rise in a decade as well as a Budget, December was relatively tame. Most economic figures continued the trends we have seen throughout the year as markets and geopolitical positions generally remained unchanged.

The first economic release of the month was the Purchasing Manager's Index (PMI) survey for the manufacturing sector, which came in at a four year high of 58.2, exceeding polled expectations of 56.5. This figure suggests that growth in the sector has further accelerated in Q4, with sterling's slide seemingly providing ample support for manufacturers. Construction PMI also exceeded expectations of 51.0; the actual figure coming in at 53.1. Services PMI came in slightly below expectations of 55.0 at 53.8, however for many analysts this was arguably a simple reversal of October's sharp rise. The figure is still a little higher than Q3's average of 53.5. The survey did however suggest that cost pressures have intensified. A rise in input prices reversed some of the decline of previous months as a result of the recent rise in oil prices. Output prices also rose to their highest level since February 2008. However, with inflationary pressures caused by sterling's fall now starting to fade, commentators suggest that it should not be too long before pricing pressures begin to wane. The future activity component of the index also suggested that November's dip in sector activity could just be temporary, and that firms are not overly pessimistic about the near-term outlook. The rise in manufacturing and construction PMIs offset much of the weakening in services PMI, and the composite PMI points to Q4 GDP growth of 0.4-0.5%.

The headline inflation figure, Consumer Price Index (CPI), rose to 3.1%, its highest level in nearly six years, tightening the squeeze on households' spending. CPI was pushed up by the cost of air travel, computer games and chocolate as food costs reflected the impact of sterling's plunge after the 2016 referendum. Additionally, rising global oil prices suggested that factories were facing more price pressures. With inflation more than a percentage point over the Bank of England's (BoE) target of 2%, Bank Governor, Mark Carney, will have to write a letter to the Chancellor of the Exchequer, Philip Hammond, to explain how the Bank intends to respond

to the elevated level of inflation.

Unemployment unexpectedly held at its four-decade low of 4.3% for October, against expectations of a further decrease to 4.2% according to a poll of economists. Employment figures dropped, suggesting employers are turning more cautious as the uncertainty over Brexit continued. Pay growth for British workers increased slightly in the three months to October, rising to 2.5% (including bonuses) against the previous month's 2.3%. No improvement had been expected, and while a welcome surprise wage growth is still being outstripped by inflation, meaning households are still feeling the squeeze as "real wages" are still negative.

As expected, the Monetary Policy Committee voted unanimously to keep the base rate at 0.5%, a month after raising them for the first time in more than a decade.

Public finances strengthened in November as tax revenues rose. The budget deficit edged down last month, boosted by robust income tax revenue and keeping finance minister Philip Hammond broadly on track to meet his new fiscal targets. Public sector net borrowing (excluding state owned banks) fell to £8.7 billion in November; 1.9% less than the same month last year and slightly below forecasts of it rising to £8.9 billion. In total, borrowing since the start of April 2017 has totalled £48.1 billion – 6.1% less than in the same period of 2016 and the lowest for this point in the financial year since 2007. Looking ahead, January typically brings a big surplus in public finances as annual income tax bills fall due.

The final estimate for Q3 UK GDP affirmed growth to be at 0.4% q/q, with the annual figure upwardly revised, by 0.2%, to 1.7%. For the first time, the Office for National Statistics (ONS) has used VAT returns from hundreds of thousands of Small / Medium sized Enterprises (SMEs) in order to bolster the data used for estimating GDP. This boosted GDP growth by an average of 0.05% per quarter in 2017. Although this change did not affect the quarterly figure, it did boost the annual rate of growth.

Across the channel, Eurozone Q3 GDP was confirmed to be 0.6% q/q. Meanwhile, the annual figure was revised slightly higher, to 2.6%, an increase from the upwardly revised Q2 figure of 2.4% y/y.

In the USA, Q3 GDP was downwardly revised to 3.2%. However, this is still an increase from the Q2 GDP figure of 3.1% and the fastest rate since Q1 2015. Non-Farm Payrolls rose by 228,000 in November. US Unemployment remained unchanged in 4.1%. Average hourly earnings increased by 0.2% in the month. Meanwhile, President Trump signed his long awaited legislation for an overhaul of the tax system containing

Housing

House prices rose for the fifth month in a row according to Halifax. They rose 0.5% m/m in November, up from 0.3% in October. However, on an annual basis, they rose by 3.9%, down from a 4.5% rise in October.

Forecast

Neither Link Asset Services (LAS) or Capital Economics (CE) changed their bank rate forecasts during December. LAS suggest that the next interest rate rise will be to 0.75% in Q4 2018, with further rises of 25 basis points in Q4 2019 and Q3 2020. CE suggest further rises of 25 basis points in Q2 2018, Q3 2018, Q4 2018, Q2 2019 and Q4 2019.

Bank Rate	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Link Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.50%	0.75%	1.00%	1.25%	1.25%

Lincolnshire County Council

Current Investment List

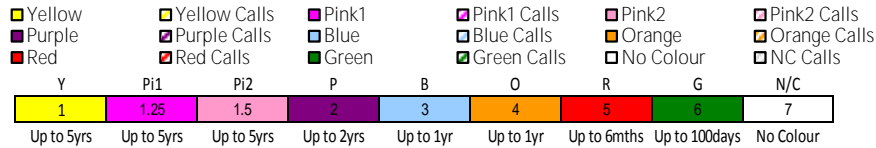
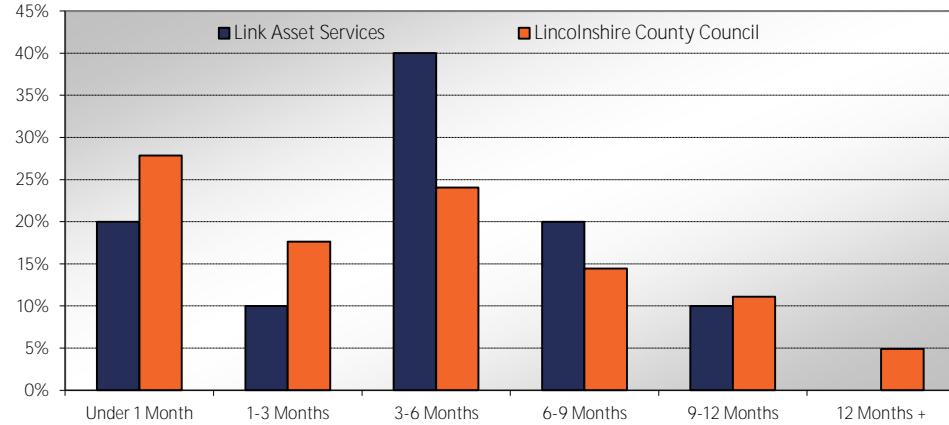
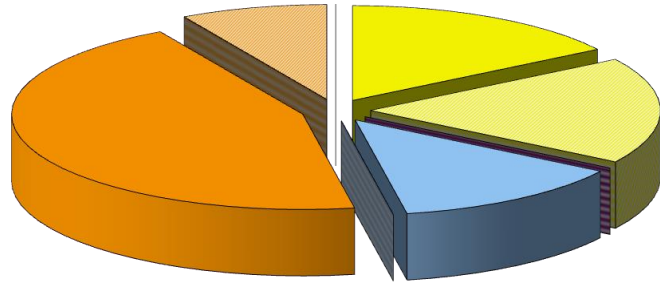
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Standard Life	5,265,000	0.35%		MMF	AAA	0.000%
MMF Deutsche	19,475,000	0.29%		MMF	AAA	0.000%
MMF Insight	16,155,000	0.32%		MMF	AAA	0.000%
MMF Aberdeen	14,735,000	0.33%		MMF	AAA	0.000%
United Overseas Bank Ltd	4,675,000	0.51%	16/01/2017	15/01/2018	AA-	0.001%
The Royal Bank of Scotland Plc	10,000,000	0.62%	17/01/2017	17/01/2018	BBB+	0.008%
Commonwealth Bank of Australia	5,000,000	0.50%	27/01/2017	26/01/2018	AA-	0.002%
HSBC Bank Plc	10,000,000	0.59%		Call30	AA-	0.002%
Blackpool Borough Council	5,000,000	0.30%	29/09/2017	02/02/2018	AA	0.002%
Landesbank Hessen-Thuringen Girozentrale (Helaba)	5,445,000	0.52%	20/02/2017	19/02/2018	A	0.008%
United Overseas Bank Ltd	5,275,000	0.45%	26/05/2017	26/02/2018	AA-	0.004%
United Overseas Bank Ltd	3,275,000	0.53%	13/03/2017	12/03/2018	AA-	0.005%
North Ayrshire Council	5,000,000	0.55%	15/03/2017	14/03/2018	AA	0.005%
Birmingham City Council	5,000,000	0.55%	24/03/2017	23/03/2018	AA	0.005%
Isle of Wight Council	5,000,000	0.55%	27/03/2017	26/03/2018	AA	0.005%
The Royal Bank of Scotland Plc	5,000,000	0.70%	05/04/2017	27/03/2018	BBB+	0.040%
Stockport Metropolitan Borough Council	5,000,000	0.60%	03/04/2017	29/03/2018	AA	0.006%
HSBC Bank plc	10,000,000	0.50%		Call90	AA-	0.006%
The Royal Bank of Scotland Plc	5,000,000	0.70%	11/04/2017	10/04/2018	BBB+	0.046%
The Royal Bank of Scotland Plc	5,000,000	0.68%	21/04/2017	13/04/2018	BBB+	0.048%
The Royal Bank of Scotland Plc	4,000,000	0.68%	08/05/2017	04/05/2018	BBB+	0.058%
The Royal Bank of Scotland Plc	6,000,000	0.64%	17/05/2017	08/05/2018	BBB+	0.059%
DBS Bank Ltd	5,000,000	0.52%	26/05/2017	11/05/2018	AA-	0.008%
Bank of Scotland Plc	5,000,000	0.65%	20/11/2017	21/05/2018	A	0.022%
Commonwealth Bank of Australia	5,000,000	0.52%	26/05/2017	25/05/2018	AA-	0.009%
Bank of Scotland Plc	5,000,000	0.75%		Call175	A	0.027%
The Royal Bank of Scotland Plc	5,000,000	0.66%	28/06/2017	27/06/2018	BBB+	0.083%
Cooperatieve Rabobank U.A.	3,925,000	0.50%	29/06/2017	28/06/2018	A+	0.028%
UBS AG	9,800,000	0.53%	28/07/2017	28/06/2018	A+	0.028%
Commonwealth Bank of Australia	10,000,000	0.52%	30/06/2017	29/06/2018	AA-	0.012%
Australia and New Zealand Banking Group Ltd	5,000,000	0.50%	30/06/2017	29/06/2018	AA-	0.012%
Landesbank Hessen-Thuringen Girozentrale (Helaba)	5,000,000	0.54%	05/07/2017	04/07/2018	A	0.029%
Australia and New Zealand Banking Group Ltd	5,000,000	0.50%	14/07/2017	13/07/2018	AA-	0.012%
Australia and New Zealand Banking Group Ltd	6,650,000	0.50%	20/07/2017	19/07/2018	AA-	0.013%
Australia and New Zealand Banking Group Ltd	3,350,000	0.48%	03/08/2017	02/08/2018	AA-	0.014%

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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Cooperatieve Rabobank U.A.	10,000,000	0.55%	15/09/2017	14/09/2018	A+	0.040%
UBS AG	5,000,000	0.52%	19/09/2017	18/09/2018	A+	0.040%
Canadian Imperial Bank of Commerce	6,500,000	0.55%	19/09/2017	18/09/2018	A+	0.040%
Landesbank Hessen-Thuringen Girozentrale (Helaba)	2,755,000	0.59%	19/09/2017	18/09/2018	A	0.040%
Landesbank Hessen-Thuringen Girozentrale (Helaba)	6,325,000	0.70%	30/10/2017	29/10/2018	A	0.047%
Toronto Dominion Bank	6,900,000	0.69%	01/11/2017	31/10/2018	AA-	0.019%
UBS AG	5,200,000	0.74%	20/11/2017	19/11/2018	A+	0.050%
United Overseas Bank Ltd	6,775,000	0.68%	24/11/2017	23/11/2018	AA-	0.021%
North Tyneside Metropolitan Borough Council	3,800,000	0.75%	11/12/2017	10/12/2018	AA	0.022%
North Tyneside Metropolitan Borough Council	5,000,000	0.75%	20/12/2017	19/12/2018	AA	0.023%
Liverpool City Council	5,000,000	0.70%	13/01/2017	11/01/2019	AA	0.024%
Doncaster Metropolitan Borough Council	5,000,000	0.77%	20/04/2017	05/04/2019	AA	0.029%
Bournemouth Borough Council	5,000,000	0.71%	29/09/2017	20/09/2019	AA	0.038%
Total Investments	£306,280,000	0.54%				0.019%

Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **2.85**

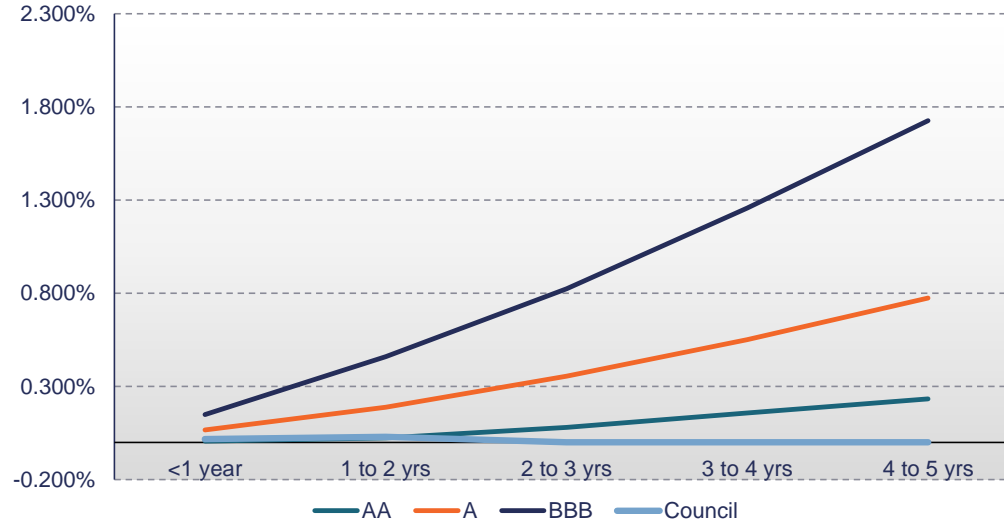
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	34.10%	£104,430,000	53.27%	£55,630,000	18.16%	0.46%	117	210	250	449
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	13.06%	£40,000,000	0.00%	£0	0.00%	0.66%	94	361	94	361
Orange	52.84%	£161,850,000	15.45%	£25,000,000	8.16%	0.56%	176	310	193	351
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
Total	100.00%	£306,280,000	26.33%	£80,630,000	26.33%	0.54%	145	282	188	374

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Investment Risk and Rating Exposure

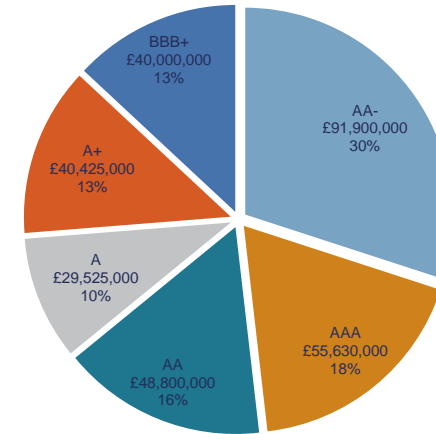
Investment Risk Vs. Rating Categories



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%	0.024%	0.081%	0.158%	0.234%
A	0.067%	0.189%	0.356%	0.551%	0.775%
BBB	0.150%	0.460%	0.824%	1.257%	1.726%
Council	0.018%	0.030%	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.

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Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
08/12/2017	1578	KBC Bank N.V.	Belgium	Long and Short Term Ratings were affirmed, Outlook on the Long Term Rating was changed to Positive from Stable.
13/12/2017	1580	Qatar National Bank	Qatar	Viability Rating affirmed and removed from Negative Watch.

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
07/12/2017	1576	Bank of America N.A.	United States	Long Term Rating upgraded to 'Aa3' from 'A1', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'. Link Asset Services Colour based on Ratings changed to 'Orange' from 'Red'.
08/12/2017	1577	Clydesdale Bank PLC	United Kingdom	Long Term Rating upgraded to 'Baa1' from 'Baa2', removed from Positive Watch and placed on Positive Outlook. Short Term Rating affirmed at 'P-2', removed from Positive Watch.
12/12/2017	1579	Commerzbank AG	Germany	Long and Short Term Ratings were affirmed, Outlook on the Long Term Rating was changed to Positive from Stable.

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Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
				There were no rating updates from S&P over the month.

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