

# SECTOR

Tamworth Borough Council

Monthly Investment Analysis Review

January 2012



# Tamworth Borough Council

## Monthly Economic Summary

### General Economy

Britain's economy edged closer to recession in the last three months of 2011, after output contracted for the first time in a year, by 0.2%. The Bank of England (BOE) kept its quantitative easing programme at £275bn at January's MPC meeting, but inched towards pumping more money into the faltering economy as the risks from the global economy still loomed large. The Consumer Price Index fell to 4.2% in December due to lower fuel prices and high-street clothes discounting. The Retail Price Inflation gauge, which is the benchmark for many wage deals, fell to 4.8% from 5.2%, in line with forecasts. BoE forecasts that inflation will be undershooting the target rate by the end of 2012, as economic weakness weighs on prices and the effect of 2011's rises in sales tax and energy prices fade. This could warrant further quantitative easing in February, when its current asset purchases are completed. The unemployment rate ticked up to 8.4% in November, above forecasts for a reading of 8.3%. The number of people out of work also showed a slight rise to 2.685m in the three months to November, the highest level since 1994. Public sector net borrowing, excluding public sector interventions, fell to £13.708bn in December, from £15.192bn a year ago. However, total outstanding debt rose above the £1trn mark for the first time on record. Weak growth and uncertainty about the knock-on effects of the euro zone debt crisis have already forced Britain's coalition government to admit it will take two years longer to eliminate its budget deficit than it envisaged when it came to power in 2010. According to the Office of National Statistics, British Retail Sales rose by 0.6% in December, on the back of shops slashing prices to lure in pre-Christmas shoppers, providing a rare note of relief after a grim 2011. GfK NOP's consumer confidence index increased by four points to -29 from -33 in December, as lower energy costs and retailer discounts provided hard-pressed consumers with some relief, at least for now. The Purchasers Managers Index (PMI) for Manufacturing rose to 49.6 in December, showing signs of stabilising after a two-month decline as orders from China and Germany picked up, although the risk of another recession persists. The PMI for the Service Sector also witnessed a rise on the month, climbing from 52.1 in November to 54.0, with the rise driven by an inflow of new businesses.

### Housing Market

According to Nationwide, house prices dipped for the second month in a row in January, by 0.2%, the same drop witnessed in December. The main drivers were the prospect of greater unemployment and buyers' problems finding large enough mortgage deposits. Mortgage approvals and values rose in December on a seasonally adjusted basis, with housing market activity strengthening leading into 2012. Data from the British Bankers Association showed the seasonally adjusted number of mortgage approvals rose to 36,171 in December from the revised 34,809 in November.

### Currency

Sterling opened the month at \$1.554, reaching a peak of \$1.599 in the fourth week of January but has since began a decline closer to figures seen earlier on in the month. Sterling, which has been vulnerable to swings in risk sentiment and pressurised equity markets, hit a January high in the last week of trading ending the month at \$1.578. Against the Euro, Sterling started the month at €1.197 and continued to rise throughout the month reaching €1.213, its highest point of the month, but dropping back down to end the month at €1.205.

### Forecast

Sector kept interest rate forecast unchanged, expecting a first increase of 0.25% in Q3 of 2013, followed by another 0.25% increase in Q4 in the same year. UBS also maintained their forecast, expecting the base rate to remain at 0.5% until Q4 of 2013. Capital Economics kept its forecast unchanged as well, believing the bank rate will remain unchanged until 2013.

Bank Rate	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Sector	0.50%	0.50%	0.50%	0.50%	0.50%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%

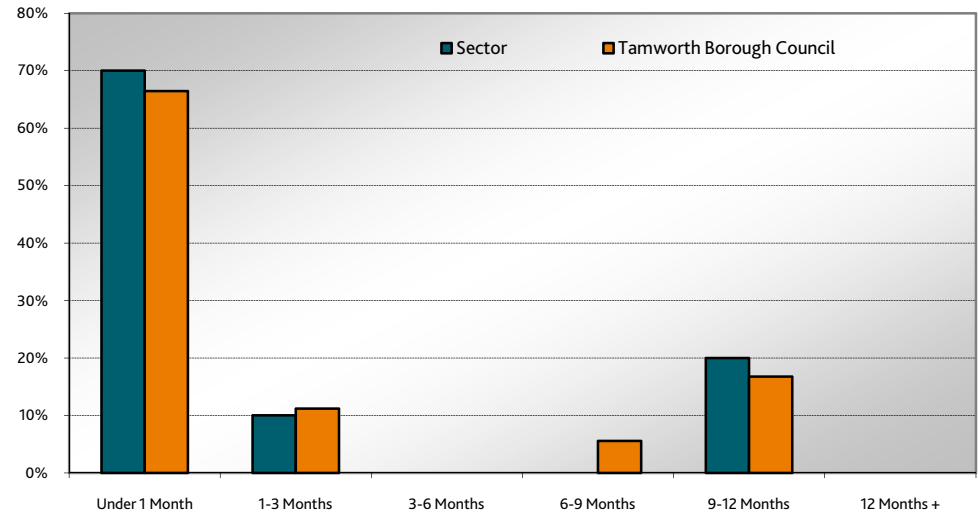
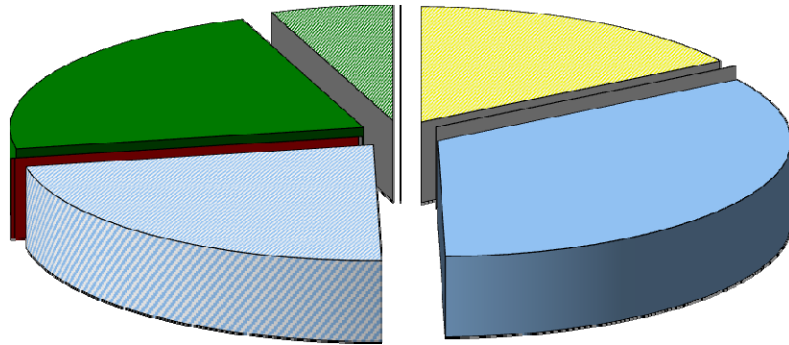
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## Current Investment List

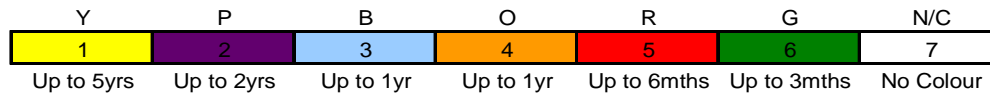
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date
National Westminster Bank	1,999,000	0.80%		call
National Westminster Bank	2,000,001	0.95%		call
Santander UK plc	1,000,000	0.75%		call
Deutsche Bank	512,000	0.70%		mmf
Ignis Liquidity Fund	2,365,000	0.83%		mmf
Nationwide	1,000,000	0.65%	06/01/2012	06/02/2012
Santander UK plc	3,000,000	1.40%	11/11/2011	10/02/2012
Bank of Scotland	2,000,000	2.05%	08/03/2011	06/03/2012
Lloyds TSB Bank	1,000,000	2.10%	05/10/2011	03/10/2012
Lloyds TSB Bank	2,000,000	2.15%	04/11/2011	02/11/2012
Lloyds TSB Bank	1,000,000	2.25%	14/11/2011	12/11/2012
Borrower - Icelandic Exposure	Principal (£)	Interest Rate	Start Date	Maturity Date
Glitnir	1,000,000	6.28%	10/10/2007	09/10/2008
Glitnir	1,000,000	6.55%	31/08/2007	28/08/2009
Singer & Friedlander	370,000	6.69%	31/08/2007	09/08/2010
Singer & Friedlander	370,000	6.16%	31/10/2007	29/10/2008
Singer & Friedlander	370,000	5.90%	14/01/2008	14/01/2010
Glitnir	1,000,000	6.16%	14/12/2007	12/12/2008
Heritable Bank	160,391	5.38%	12/09/2008	13/10/2008
Heritable Bank	320,782	5.45%	15/09/2008	22/10/2008
<b>Total Investments</b>	<b>£22,467,174</b>			
<b>Total Investments - excluding Icelandic exposure</b>	<b>£17,876,001</b>	<b>1.35%</b>		
<b>Total Investments - Icelandic Exposure Only</b>	<b>£4,591,173</b>	<b>6.22%</b>		

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## Portfolio Composition by Sector's Suggested Lending Criteria



■ Yellow    ■ Yellow Calls    ■ Purple    ■ Purple Calls    ■ Blue    ■ Blue Calls    ■ Orange  
■ Orange Calls    ■ Red    ■ Red Calls    ■ Green    ■ Green Calls    ■ No Colour    ■ NC Calls



Portfolios weighted average risk number = **3.5**

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	
									WAM	WAM at Execution
Yellow	16.09%	£2,877,000	100.00%	£2,877,000	16.09%	0.80%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	55.94%	£9,999,001	39.99%	£3,999,001	22.37%	1.63%	115	218	192	364
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Green	27.97%	£5,000,000	20.00%	£1,000,000	5.59%	1.12%	7	61	9	76
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
<b>Total</b>	<b>100.00%</b>	<b>£17,876,001</b>	<b>44.06%</b>	<b>£7,876,001</b>	<b>44.06%</b>	<b>1.35%</b>	<b>67</b>	<b>139</b>	<b>119</b>	<b>249</b>

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## Monthly Credit Rating Changes

### FITCH

Date	Update Number	Institution	Country	Rating Action
30/01/2012	1049	Belgium Sovereign Rating	Belgium	Sovereign Rating downgraded to 'AA' from 'AA+' and Outlook changed to 'Negative' from 'Negative Watch'
30/01/2012	1050	Clydesdale Bank	U.K	LT Outlook placed on 'Negative Watch' from 'Stable'
30/01/2012	1050	Australia and New Zealand Banking Group Ltd	Australia	LT Outlook placed on 'Negative Watch' from 'Positive', ST Outlook placed on 'Negative Watch', Viability Outlook placed on 'Negative Watch'
30/01/2012	1050	Commonwealth Bank of Australia	Australia	LT Outlook placed on 'Negative Watch' from 'Stable', ST Outlook placed on 'Negative Watch'
30/01/2012	1050	National Australia Bank Ltd	Australia	LT Outlook placed on 'Negative Watch' from 'Stable', ST Outlook placed on 'Negative Watch'
30/01/2012	1050	Westpac Banking Corporation	Australia	LT Outlook placed on 'Negative Watch' from 'Stable', ST Outlook placed on 'Negative Watch'
30/01/2012	1051	Northern Rock Plc	U.K	LT Rating downgraded to 'BBB' from 'BBB+', ST Rating downgraded to 'F3' from 'F2', Viability Rating downgraded to 'bbb' from 'bbb+', Support Rating downgraded to '5' from '2'
31/01/2012	1052	KBC Bank NV	Belgium	LT Rating downgraded to 'A-' from 'A' and Outlook changed to 'Stable' from 'Negative Watch'

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## Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
18/01/2012	1043	Commerzbank AG	Germany	LT rating placed 'Under Review for Possible Downgrade' from 'Stable', ST rating placed 'Under Review for Possible Downgrade', FSR downgraded to 'D+' from 'C-' and placed 'Under Review for Possible Downgrade' from 'Negative Outlook'

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## Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
06/01/2012	1041	Northern Rock Plc	U.K	LT Rating downgraded to 'BBB+' from 'A-' and Outlook changed to 'Stable' from 'Negative Watch'
16/01/2012	1042	France Sovereign Rating	France	Sovereign Rating downgraded to 'AA+' from 'AAA' and Outlook changed to 'Negative' from 'Negative Watch'
16/01/2012	1042	Belgium Sovereign Rating	Belgium	LT Outlook changed to 'Negative' from 'Negative Watch'
16/01/2012	1042	Germany Sovereign Rating	Germany	LT Outlook changed to 'Stable' from 'Negative Watch'
16/01/2012	1042	Finland Sovereign Rating	Finland	LT Outlook changed to 'Negative' from 'Negative Watch'
16/01/2012	1042	Spain Sovereign Rating	Spain	Sovereign Rating downgraded to 'A' from 'AA-' and Outlook changed to 'Negative' from 'Negative Watch'
16/01/2012	1042	Netherlands Sovereign Rating	Netherlands	LT Outlook changed to 'Negative' from 'Negative Watch'
16/01/2012	1042	Luxembourg Sovereign Rating	Luxembourg	LT Outlook changed to 'Negative' from 'Negative Watch'
18/01/2012	1044	Landwirtschaftliche Rentenbank	Germany	LT Outlook changed to 'Stable' from 'Negative watch'
20/01/2012	1045	Ulster Bank Ltd	U.K	LT Outlook changed to 'Negative' from 'Negative Watch', ST Outlook removed from 'Negative Watch'
23/01/2012	1046	Bank Nederlandse Gemeenten	Netherlands	LT Outlook changed to 'Negative' from 'Negative Watch'
23/01/2012	1046	Cooperatieve Centrale Raiffeisen Boerenleenbank BA	Netherlands	LT Outlook changed to 'Negative' from 'Negative Watch'
23/01/2012	1046	Banque et Caisse d'Epargne de l'Etat	Luxembourg	LT Outlook changed to 'Negative' from 'Negative Watch'
24/01/2012	1047	BNP Paribas	France	LT Outlook changed to 'Negative' from 'Negative Watch', ST Outlook removed from 'Negative Watch'
24/01/2012	1047	Societe Generale	France	LT Rating downgraded to 'A' from 'A+' and Outlook changed to 'Stable' from 'Negative Watch'
24/01/2012	1047	Credit Agricole SA	France	LT Rating downgraded to 'A' from 'A+' and Outlook changed to 'Stable' from 'Negative Watch'
24/01/2012	1047	CALYON Corporate and Investment Bank	France	LT Rating downgraded to 'A' from 'A+' and Outlook changed to 'Stable' from 'Negative Watch'
24/01/2012	1047	Fortis Bank	Belgium	LT Outlook changed to 'Negative' from 'Negative Watch', ST Outlook removed from 'Negative Watch'
25/01/2012	1048	Commerzbank AG	Germany	LT Outlook changed to 'Negative' from 'Negative Watch', ST Outlook removed from 'Negative Watch'
25/01/2012	1048	Deutsche Bank AG	Germany	LT Outlook changed to 'Negative' from 'Negative Watch'