

# SECTOR

## Tonbridge & Malling Borough Council

### Investment Analysis Review

February 2010



## Tonbridge & Malling Borough Council

### Monthly Economic Summary

#### General Economy

GDP figures (second estimate), showed that the economy grew higher than initially thought due to the service sector growing five times than previously estimated. Figures released showed an increase by +0.3%q/q, revised up from the previous +0.1%q/q whilst the yearly figure rose to -3.3%. Britain's inflation rate rose as expected even further above its 2% target in January. CPI fell 0.2%m/m and on the year rose to 3.5%, its highest level since November 2008. The reason will certainly be down to the base effect of the falling oil price and the cut in VAT dropping out of the yearly comparison. Month-on-month inflation fell due to the post Christmas discounting, a figure that was less than the 0.7% fall a year ago, due to the increase in the rate of VAT. RPI was flat in January, taking the yearly figure to +3.7%, the highest y/y pace since October 2008. The ILO measure stayed at 7.8% in the three months to December, in line with the forecasts, after the measure declined by 3,000 for the period. The claimant count change rose unexpectedly by 23,500, compared to forecasts of a decline by 15,200. The latest data wiped out the declines seen in the previous two months and took the total figure to its highest since 1997. UK manufacturing output grew more than expected in December, after strong gains in the transport and electrical sectors. Figures showed an increase of 0.9%m/m and the yearly figure eased to -1.9%/y. Industrial production also rose more than expected, the highest since Sept 09, after an increase by +0.5%m/m and on the year eased to -3.6%/y. CIPS PMI manufacturing index expanded in January by the fastest pace in 15 years, to 56.6. The headline services PMI sharply dropped to 54.5 in January from 56.8, though still the ninth successive month above the 50-level. The construction PMI index in January rose for the 23rd month in a row to 48.6 from 47.1 in December.

#### Housing Market

Nationwide house prices declined against forecasts, reducing by -1.0%m/m, the first decline in nine months. The yearly rate rose to 9.2% from 8.6% due to a smaller decline this February compared to a year ago, when it slipped 1.5%. The snowy weather and the end of the stamp duty holiday on property sales were the likely factors to explain this blip. Halifax house prices rose by 0.6%m/m in January, the seventh consecutive month that prices have risen. The latest rise takes the annual rate in the three months to January a year ago to 3.6%, from 1.1%/y in December. BBA reported that mortgage approvals reduced to 35,083 in January, the previous month rising by +45,650.

#### Currency

Sterling started the month at \$1.592 and reached a high of \$1.597 before ending the month at a low of \$1.522. Sterling against the Euro ended at €1.115 having started the month at €1.146. The Euro started the month at \$1.391 against the dollar, before ending the month at \$1.363

#### Forecast

Sector believes that the Bank rate will remain at 0.5% for the rest of the year and expects the next upward move to be Q1 2011 and eventually reaching 4.50% in Q1 2013. UBS believe that the bank rate will start to increase in Q4 of 2010, reaching 2.25% by the end of 2011. Capital Economics have not changed their forecast and believe that rates will be held at 0.5% for up to five years, if things do not improve.

Bank Rate	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
Sector	0.50%	0.50%	0.50%	0.50%	1.00%
UBS	0.50%	0.50%	0.50%	0.75%	1.00%
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%

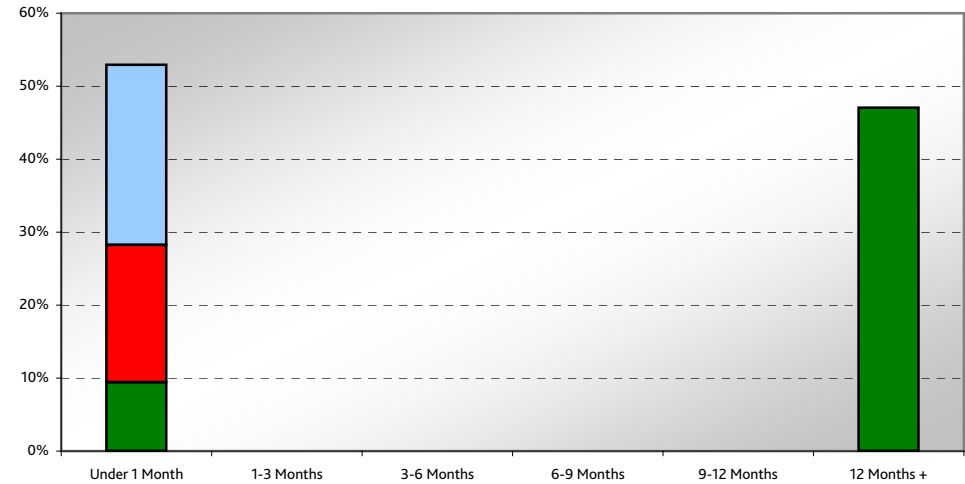
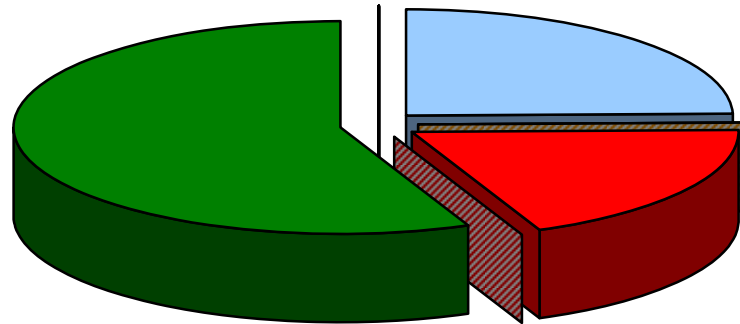
## Tonbridge & Malling Borough Council

### Current Investment List

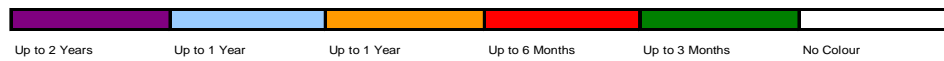
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date
Alliance & Leicester	2,000,000	0.80%	26/02/2010	01/03/2010
Bank Of Scotland	2,000,000	0.80%	26/02/2010	01/03/2010
Clydesdale	1,000,000	0.80%	26/02/2010	01/03/2010
Natwest	620,000	0.80%	26/02/2010	01/03/2010
Nationwide	2,500,000	6.25%	28/05/2008	27/05/2011
Barclays	2,500,000	7.05%	17/07/2008	16/07/2011
<b>Total Investments</b>	<b>£10,620,000</b>	<b>3.55%</b>		

**Tonbridge & Malling Borough Council**

**Portfolio Decomposition by Sector's Suggested Lending Criteria**



- Purple    Purple Calls    Blue    Blue Calls    Orange    Orange Calls
- Red    Red Calls    Green    Green Calls    No Colour    NC Calls



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
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	24.67%	£2,620,000	0.00%	£0	0.00%	0.80%	1	3	1	3
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	18.83%	£2,000,000	0.00%	£0	0.00%	0.80%	1	3	1	3
Green	56.50%	£6,000,000	0.00%	£0	0.00%	5.68%	399	912	399	912
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
<b>Total</b>	<b>100.00%</b>	<b>£10,620,000</b>	<b>0.00%</b>	<b>£0</b>	<b>0.00%</b>	<b>3.55%</b>	<b>226</b>	<b>517</b>	<b>226</b>	<b>517</b>





