SECTOR

Tonbridge & Malling Borough Council

Investment Analysis Review

February 2010



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/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/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/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

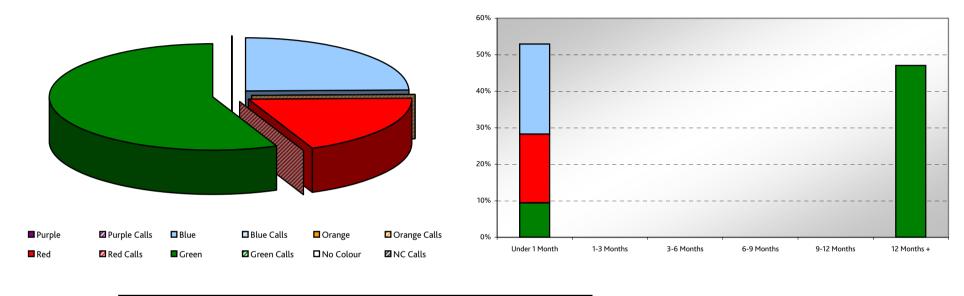
Sector believes that the Bank rate will remain at 0.5% for the rest of the year and expects the next upward move to be Q1 2011 and eventually reaching 4.50% in Q1 2013. UBS believe that the bank rate will start to increase in Q4 of 2010, reaching 2.25% by the end of 2011. Capital Economics have not changed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

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
Total Investments	£10,620,000	3.55%		

Portfolio Decomposition by Sector's Suggested Lending Criteria



Up to 2 Years	Up to 1 Year	Up to 1 Year	Up to 6 Months	Up to 3 Months	No Colour

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

			% of Colour	Amount of	% of Call				Exclı	ıding Calls/MMFs
	% of Portfolio	Amount	in Calls	Colour in Calls	in Portfolio	WARoR	WAM	WAM at Execution	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
-	100.00%	£10,620,000	0.00%	£0	0.00%	3.55%	226	517	226	517

Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
08/02/2010	710	ABN AMRO Bank NV	Netherlands	Assigned ratings to the new ABN AMRO Bank NV and placed the L/T rating on a 'Stable Outlook'

Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
03/02/2010	709	ING Bank NV	Netherlands	Affirmed all ratings while placing the FSR on 'Negative Outlook'
08/02/2010	710	ABN AMRO Bank NV	Netherlands	Assigned ratings to the new ABN AMRO Bank NV and placed the L/T and FSR ratings on 'Negative Outlook'
12/02/2010	714	Dexia Bank Belgium	Belgium	Upgraded the FSR rating and placed the L/T and FSR ratings on a 'Stable Outlook'
15/02/2010	715	Saudi Arabia Sovereign Rating	Saudi Arabia	Upgraded the L/T sovereign rating
15/02/2010	716	Samba Financial Group	Saudi Arabia	Upgraded the L/T rating with a 'Stable Outlook'
19/02/2010	718	Deutsche Postbank AG	Germany	Downgraded the L/T and FSR ratings and placed them both on 'Negative Outlook'

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
01/02/2010	708	Fortis Bank	Belgium	Upgraded L/T rating and also placed it on 'Negative Outlook'
09/02/2010	711	Citibank International plc	UK	Placed L/T rating on 'Negative Outlook'
09/02/2010	711	Citibank N.A	USA	Placed L/T rating on 'Negative Outlook'
09/02/2010	712	Bank of America, N.A	USA	Placed L/T rating on 'Negative Outlook'
10/02/2010	713	Dexia Bank Belgium	Belgium	Placed L/T rating on 'Negative Outlook'
17/02/2010	717	Macquarie Bank Ltd	Australia	Placed L/T rating on 'Stable Outlook'
23/02/2010	719	Skandinaviska Enskilda Banken (SEB)	Sweden	Placed L/T rating on 'Stable Outlook'