

# SECTOR

## Tonbridge & Malling Borough Council

### Monthly Investment Analysis Review

August 2010



## Tonbridge & Malling Borough Council

### Monthly Economic Summary

#### General Economy

The consumer price index rate slowed to 3.1% in July compared to 3.2% recorded in the previous month, primarily a result of decreasing transport prices. This was the eight consecutive month that inflation has exceeded the BoE's 2% target, forcing the BoE Governor Mervyn King to write his third letter this year to Chancellor George Osborne explaining how increasing prices are to be controlled. Furthermore, BoE published its Quarterly Inflation Report this month downgrading its outlook for UK's economic growth with warning of a "choppy recovery" over the next two years. The bank projects GDP growth to be 1.6% in 2010, whilst inflation is expected to remain well above the 2% target. A month-on-month fall of 0.2% in consumer prices did not influence the MPC to increase BoE's base rate, while Andrew Sentence's attempt to increase the rate was disregarded by 8 members voting in favour of leaving the base rate unchanged at 0.5%. Retail sales came out stronger than forecast. On an annual measure sales remained flat at 1.3% but grew 0.7% from the previous month. UK economy grew 1.2% in the three months to June, hitting the fastest growth rate since 2001. On the year, GDP was higher by 1.7% as construction output proved to be stronger than projected. Government borrowing came out at £3.17bn in July, while public sector net debt hit £927.4bn representing 63.3% of GDP in July. The producer input prices rose by 10.8% y/y compared to 10.7% in June. The index of sentiment was at its lowest since April 2009 as a result of major budget cuts and faster inflation slumping consumer confidence by 7 points to 56 in July. Signs of recovery were indicated with a fall of 3,800 in jobless benefit claims and the number of people in employment rising by 184,000. The trade deficit narrowed in June 2010 to £-7.4bn beating economists' forecast of £-7.7bn.

#### Housing Market

Following three months of fall in house prices Halifax reported a month on month price increase of 0.6% in July. This increased the value of an average house to £167,425 from £166,351 in the previous month, beating economists' forecasts of a 0.3% fall in July. On the other hand, the British Bankers' Association showed a different picture reporting a second consecutive fall in mortgage lending. Hopes of sustained recovery in house prices are seen to be 'fading' as 33,698 mortgages were approved, down from June's figure of 34,575.

#### Currency

The cable started the month at \$1.57 and rallied down to its lowest point at close, ending the month at \$1.53. Sterling started the month at €1.19 and reached a high point of €1.218 before ending at €1.217. The Euro closed the month at \$1.26 against the dollar after starting the month at \$1.31.

#### Forecast

Sector has undertaken a review of its interest rate forecast. The increase in risk of further quantitative easing in the UK and US (i.e. a further loosening of monetary policy rather than a tightening) has pushed our view on the first increase of Bank Rate. Sector now expects the first increase to take place on Q3 2011.

Bank Rate	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
Sector	0.50%	0.50%	0.50%	0.50%	0.75%
UBS	0.50%	0.50%	0.75%	1.00%	1.50%
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%

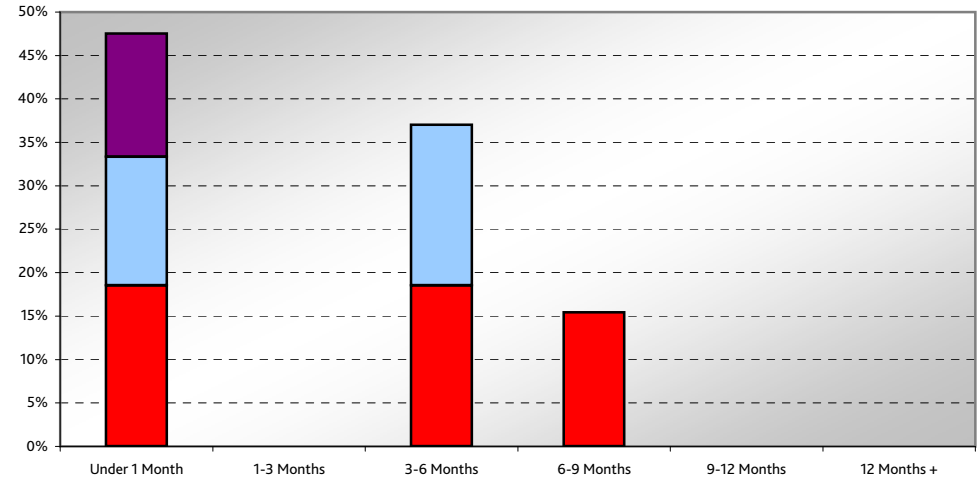
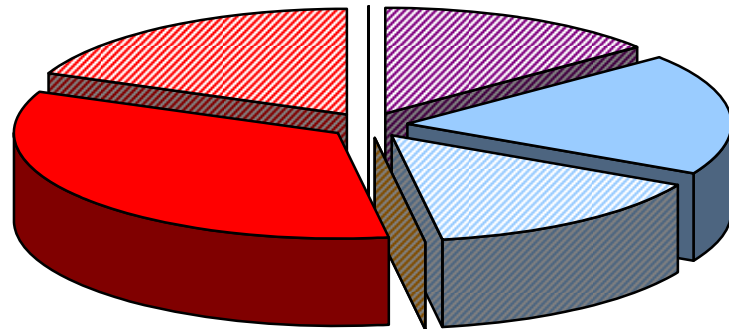
## Tonbridge & Malling Borough Council

### Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date
Santander UK	3,000,000	0.80%		Call
Natwest	2,400,000	0.80%		Call
Insight	2,168,000	0.52%		MMF
Goldman Sachs	129,000	0.52%		MMF
Barclays	1,500,000	0.97%	10/06/2010	10/12/2010
Nationwide BS	1,500,000	0.94%	16/06/2010	16/12/2010
Bank of Scotland	1,500,000	1.48%	01/06/2010	01/03/2011
Lloyds TSB	1,500,000	1.48%	01/06/2010	01/03/2011
Nationwide BS	2,500,000	6.25%	28/05/2010	27/05/2011
Borrower - Icelandic Exposure	Principal (£)	Interest Rate	Start Date	Maturity Date
Landsbanki	1,000,000	5.86%	30/07/2008	
<b>Total Investments</b>	<b>£17,197,000</b>	<b>2.00%</b>		
<b>Total Investments - excluding Icelandic exposure</b>	<b>£16,197,000</b>	<b>1.76%</b>		
<b>Total Investments - Icelandic Exposure Only</b>	<b>£1,000,000</b>	<b>5.86%</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	14.18%	£2,297,000	100.00%	£2,297,000	14.18%	0.52%	0	0	0	0
Blue	33.34%	£5,400,000	44.44%	£2,400,000	14.82%	1.18%	101	152	182	273
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	52.48%	£8,500,000	35.29%	£3,000,000	18.52%	2.46%	116	172	179	265
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
	<b>100.00%</b>	<b>£16,197,000</b>	<b>47.52%</b>	<b>£7,697,000</b>	<b>47.52%</b>	<b>1.76%</b>	<b>94</b>	<b>141</b>	<b>180</b>	<b>268</b>





